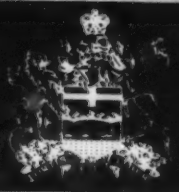
Budget Highlights 1989



Alberta

THE HONOURABLE DICK JOHNSTON
Provincial Treasurer

1989 Budget

- Our economy is strong. Alberta led the country in economic growth in 1988 and the province's growth is expected to exceed the national average again in 1989.
- The budget helps ensure that economic diversification and growth will take place in a manner that protects our environment.
- The budget emphasizes the critical importance of the education of our children to the social and economic well-being of the province.
- The budget maintains quality people programs and services. Preventive health care is strengthened. Support for senior citizens to live in their own homes and communities is expanded. Programs for families and children are enhanced.
- The budget keeps the economy moving. It increases investment in transportation infrastructure. It protects Albertans against high federal interest rates. It increases support to farmers and ranchers.
- The budget contains no increases in income taxes. Albertans continue to enjoy the lowest provincial taxes in the country and pay no provincial sales tax.
- The budget reflects the government's ongoing commitment to responsible fiscal management. It reduces the deficit by $245 million. Since 1985-86, this government has, by far, the best expenditure management record in the country. Controlling government expenditure will continue to be a high priority.
- The budget meets fully this government's campaign commitments.

Economic Outlook

Alberta is on the move again - building a strong and diversified economy to provide more jobs and higher incomes for Albertans.

- Alberta's economy grew by more than 7% last year and is expected to grow by 3% to 3.5% in 1989.
- 25,000 jobs are expected to be created this year, on top of the 40,000 new jobs in 1988.
- This government will help generate over $10 billion of investment in the forestry, energy and petrochemical industries by 1995. Eleven major forestry projects, at a cost of $3.5 billion, will create about 10,000 construction jobs and over 4,000 permanent jobs for Albertans. Substantial spin-off investment and employment will also be generated.

Forestry Projects

Name	Location	Total Cost ($ millions)	Construction Employment (person years)	Permanent Employment (number of jobs)
Alberta Energy Company	Slave Lake	168	300	125
Alberta Newsprint Company	Whitecourt	379	720	375
Alberta-Pacific Forest Industries	Athabasca/ Lac La Biche	1.300	3.500	1.300
Daishowa Canada	Peace River	550	2.000	630
Millar Western	Whitecourt	205	350	190
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Procter & Gamble	Grande Prairie	365	1.200	300
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Sunpine Forest Products	Rocky Mountain House	32	600	265
Weldwood of Canada	Hinton	393	1.140	370
Weldwood of Canada	Hinton	50	75	120
		3.493	9,970	4.065

- Natural gas exports to the United States grew by about 80% in the last two years to almost 1.2 trillion cubic feet, an all-time record. Alberta's share of the U.S. market is expected to approach 10% by about 1995. Substantial price increases are also expected. This will give a tremendous boost to our economy and government finances in the early 1990's.

Education - Our Priority Investment

The education and training of our youth is the government's most important responsibility. In 1989-90, the province's total spending on the education of Albertans will be $2.7 billion, nearly one-quarter of our total program expenditure.

Basic Education

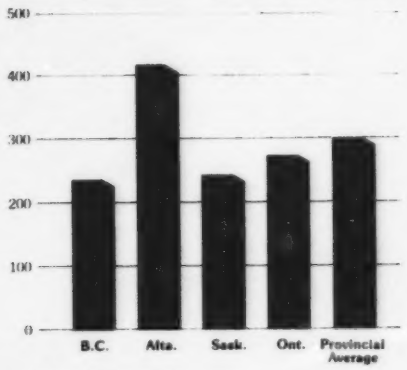
- Basic operating grants to school boards will increase by 5.5%, the highest increase among the major grant programs. On a school year basis, total provincial operating support will increase by over 8%. Over $3,300 will be spent for each child attending school in Alberta.
- An increase of nearly 11% to more than $92 million is provided for educating children with special needs, including gifted children.
- An additional $2.9 million is budgeted to restore full funding of the Community Schools program and to fund a new program to meet the needs of children attending inner-city schools.
- An increase of over 14% to nearly $65 million is provided in equity grants to fiscally disadvantaged school boards. Funding for the Distance Education Initiative will increase to more than $11 million.

Advanced Education and Training

- Alberta ranks first in per capita spending on advanced education. In 1989-90, a total of about $1.2 billion will be provided.
- Basic operating grants to post-secondary institutions will increase by 5% to $811 million.
- The budget provides $3.1 million to expand academic programs and administrative services at the University of Lethbridge; $2 million to enhance university transfer programs at Red Deer College, Mount Royal College and Grant MacEwan Community College; and $5.9 million to expand business education programs at universities.

- $8 million is budgeted for the first-year costs of a new $80 million Alberta Advanced Education Endowment and Incentive Fund.
- About $94 million will be made available from the Capital Fund for the construction of post-secondary education facilities.
- To meet expected skill shortages, $2 million is budgeted for a new on-the-job training program. $1.5 million is also budgeted to improve training in the tourism sector.

Post-Secondary Education Spending, 1988-89
(dollars per capita)



Source: Statistics Canada

Securing Economic Growth and Diversification

The government will continue to support the growth and diversification of our economy.

Infrastructure

- Efficient transportation infrastructure is basic to Alberta's future growth.
- Over $147 million will be provided for the first-year funding of a new $500 million Alberta Cities Transportation Partnership program.
- Alberta's towns and villages will benefit from a new $75 million Streets Assistance program. $10 million has been allocated for this program in 1989-90.
- $100 million is budgeted to accelerate the planned development of Alberta's secondary highways, an increase of $18 million over last year's budget.
- Improvements will be made to Highway 63 from north of Edmonton through Fort McMurray and to the highway from Calgary to Coutts. Work on the twinning of the Yellowhead and Trans Canada highways will continue.
- About $82 million will be provided for developing transportation links to support developments in the forestry and other resource sectors.

Interest Shielding and Capital Access

- $70 million is budgeted to protect homeowners, small businesses, farmers and ranchers from high federal interest rates.
- A $500 million enhancement has been made to the Alberta Farm Credit Stability program. The program will be extended to June 30, 1991.
- A new $200 million Alberta Capital Loan Guarantee program for small businesses will be established. $18 million will be provided by the Alberta Opportunity Company under its venture capital and new seed capital programs.

Agriculture

- Agriculture is the government's number one economic priority. Over $600 million in support to farmers, ranchers and other agricultural producers is budgeted.
- Farmers' diesel fuel costs will be reduced 5 cents a litre, at a cost of $23 million. The total budget for the purple fuel program is $111 million.
- Funding will be provided for a new Private Irrigation Water Supply program and a new soil conservation program in 1989-90.
- The Crow Benefit Offset program has been extended at a cost of over $46 million in 1989-90, but the level of support will be reduced to $10 per tonne effective September 1, 1989.

Enhancing The Quality of Life

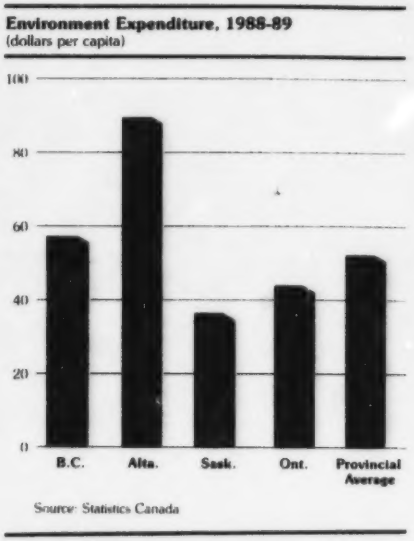
This budget enhances the quality of life in Alberta. It protects the environment, improves community services, strengthens our health care system and supports our seniors and those with special needs.

A Healthy Environment

- Alberta is a leader on environmental issues in Canada. Our per capita expenditure on environmental programs has consistently been at least 25 per cent higher than the provincial average. The budget of the department of Environment will increase by more than 9% to $119 million in 1989-90.

- The budget funds new and expanded programs, including a Centre of Expertise in Hazardous Waste Management, a five-year extension to the Land Reclamation program, a Pesticide Container program and a program to carry out an inventory of underground fuel storage tanks.

- Enforcement of fish and wildlife regulations will be strengthened and over $22 million will be spent on programs to manage and enhance our forests.



Quality Community Services

- Unconditional grants to municipalities will increase by 5% to nearly $105 million and $19 million will be provided in transit operating grants.

- Payments under the Alberta Municipal Partnership in Local Employment program will increase by 18% to nearly $68 million.

- Grants to municipalities for policing services will increase by 5% to over $30 million, and the budget for the Check Stop program has been increased by 7.7% to $1.2 million.

- $5 million is budgeted for enhancements to urban and rural recreational facilities for families.

Comprehensive Health Care

- To ensure continued access to the finest medical care system in the country, health care expenditure will increase by 6.7% to over $3.5 billion. This is about $4,100 per household.

- To help pay for part of this increase, health care premiums for single and family contributors will be increased by $1.75 and $3.50 per month respectively, effective October 1, 1989. Senior citizens and 225,000 low income Albertans will continue to pay no premiums.

- $7.5 million is budgeted for nurses' educational and job-related needs.

- To strengthen preventive care, global operating grants to local health units will increase by nearly 27% to almost $130 million.

- The budget for the Alberta Alcohol and Drug Abuse Commission will be increased by $4.9 million. Funding is also provided to initiate planning for the Family Life and Drug Abuse Foundation.

Support for Senior Citizens

- Seniors deserve to live in security, dignity and comfort in their own homes and communities. This budget raises our total commitment for senior citizens to over $1 billion in the 1989-90 fiscal year.

- Funding for Home Care will be increased by 44% to $47 million. $1.8 million will be provided for the purchase of approved medical alert systems.

- A new program will be initiated to assist seniors in upgrading their homes. Nearly $125 million is provided for property tax rebates and renter assistance grants.

Helping Albertans in Need

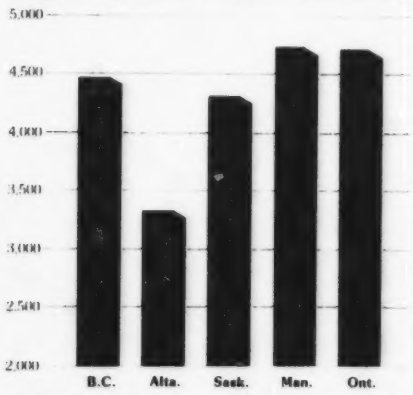
- Support to women's shelters will be increased by 24% to $5.1 million.
- The maximum assistance provided to the handicapped for modifying their homes will be raised from $1,000 to $5,000.
- Effective May 1, 1989, foster parents' allowances were increased by 10%. Funding is provided to double the number of parent-counsellor foster homes. A new post-adoption support program for families adopting special-needs children is initiated.
- Effective September 1, 1989, the monthly day care subsidy for low income parents will be increased by more than 20%. $1.6 million is budgeted to upgrade the qualifications of day care workers and $284,000 will be provided to strengthen the monitoring of day care centres.
- The funding available to help prepare social assistance recipients for employment has been quadrupled to $6 million.

Taxation

Albertans enjoy the best public services in Canada at the lowest rates of taxation. This budget maintains our enviable position.

- There will be no increase in income taxes.
- The tax rates on cigarettes and cigars will increase by 20% and the tax rate on loose tobacco will increase from 1.5 cents to 2 cents per gram.
- An Alberta family pays about $1,350 less in provincial taxes than a comparable family in Ontario.

Comparison of Provincial Taxes Payable[a]



[a] Family of four, gross income of $40,000. Includes provincial personal income tax, sales tax, health care insurance premiums, tobacco tax, fuel tax, and hotel room tax. Other provinces as of May 26, 1989.

Fiscal Situation and Outlook

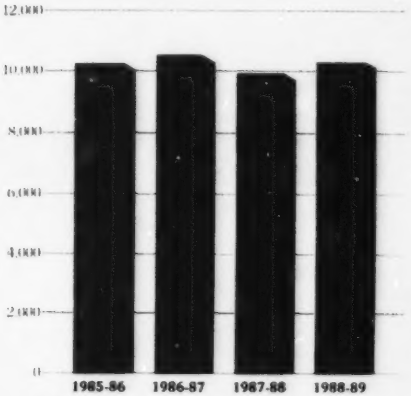
This government is committed to responsible fiscal management.

- From a deficit of more than $3.4 billion in 1986-87, the deficit was reduced to $933 million in 1987-88.
- Lower-than-expected oil and natural gas prices combined with the higher Canadian dollar resulted in the 1988-89 deficit rising to $1.7 billion.

Prudent Expenditure Control

- This government has the best record of expenditure management in the country.
- In the three years from 1985-86 to 1988-89, this government kept program expenditure essentially flat.
- Program spending in 1989-90 is only 5.4% above the level in 1985-86.
- There is a government-wide commitment to freeze travel budgets at last year's level. Hosting expenditures will be reduced.

Program Expenditure[a]
(millions of dollars)



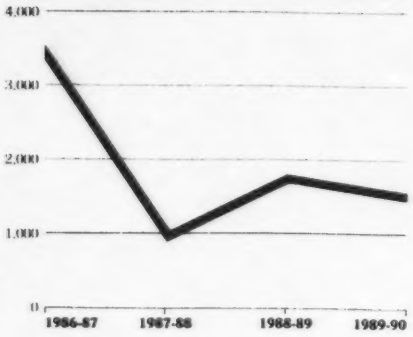
[a] General Revenue Fund

- Program cost reviews will be initiated.
- School boards, post-secondary institutions, hospitals and other health care agencies receive over 40% of the provincial program budget. We are calling on them to continue productivity enhancements and to concentrate funds on front-line people services.

Financial Plan

- Our fiscal strategy seeks a balance between the need to reduce the deficit and the need to provide funding for Albertans' long-term social and economic objectives.
- We plan to move toward a balanced budget by 1991-92.
- The 1989-90 budgetary deficit is estimated at $1.49 billion. This is a reduction of $245 million from the 1988-89 forecast level.

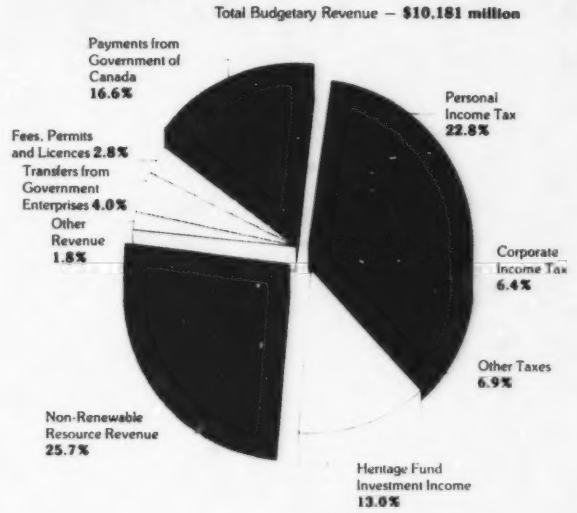
General Revenue Fund Deficits
(millions of dollars)



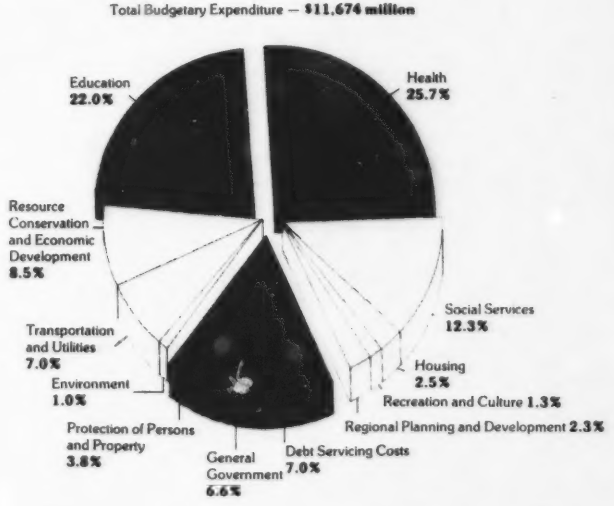
Summary Financial Plan
(millions of dollars)

	1989-90 Estimate	1988-89 Forecast	1988-89 Estimate	1987-88 Actual
Budgetary Revenue				
General	8,861	7,879	8,574	8,113
Heritage Fund Investment Income	1,320	1,250	1,245	1,353
	10,181	9,129	9,819	9,466
Budgetary Expenditure				
Program	10,849	10,287	10,030	9,994
Debt Servicing Costs	825	580	460	405
	11,674	10,867	10,490	10,399
Budgetary Deficit	1,493	1,738	671	933

Budgetary Revenue
By Major Source, 1989-90 Estimate



Budgetary Expenditure
By Major Function, 1989-90 Estimate



Major Provincial Tax Rates, 1989

	Personal Income Tax[a]			Retail Sales Tax	Gasoline Tax Leaded	Tobacco Tax	Health Premiums[d] Individual/ Family	Corporate Income Tax		Capital Tax[g]	Payroll Tax	Insurance Premiums Tax[h]
	Basic Rate	High Income Surtax	Flat Rate Tax					Small Business Rate[e]	General Rate[f]			
	(%)	(%)	(%)	(%)	(¢/litre)	($/pack of 25)	($/month)	(%)	(%)	(%)	(%)	(%)
British Columbia	51.5	—	—	6	9.69	1.25	31.00/62.00	9	14	0/2.0	—	2/3
Alberta	46.5	8	0.5	—	5.0	1.20	19.75/39.50	0/5	9/15	—	—	2/3
Saskatchewan	50.0	12	2.0	7	12.0[b]	1.67	—	0/10	15	0.5/3.0	—	2/3
Manitoba	54.0	—	2.0/4.0	7	9.8	1.38[c]	—	0/10	17	0.3/3.0	2.25	2/3
Ontario	52.0	10	—	8	13.3	0.96[c]	29.75/59.50	10	14.5/15.5	0.3/0.8	—	2/3
Quebec	—[i]	—	—	9	14.4	1.13	—	—[i]	—[i]	0.5/1.01	3.36	2/3
New Brunswick	60.0	—	—	11	11.5	1.31[c]	—	9	16	0/3.0	—	2/3
Nova Scotia	56.5	—	—	10	8.9	1.13[c]	—	0/10	15	0/1.5	—	2/3
Prince Edward Island	57.0	10	—	10	8.6	1.18	—	10	15	0/1.5	—	2
Newfoundland	60.0	—	—	12	10.2	1.195[c]	—	0/10	16	0/2.0	—	4

Rates for other provinces known as of May 26, 1989.

[a] The high income surtax is a percentage of basic provincial tax above a specified level except in Saskatchewan where it is on total provincial tax. Alberta's flat rate tax is on taxable income. Saskatchewan's and Manitoba's are on net income; in Manitoba, an additional 2% is applied to high income taxpayers.

[b] Saskatchewan residents are entitled to an annual rebate of tax on their in-province purchases of fuel for personal use.

[c] Does not include provincial retail sales tax which is applied on top of tobacco tax.

[d] Alberta's rate is effective October 1, 1989. Ontario premiums will be replaced by a payroll tax in 1990.

[e] The 0% rate applies to start-up small businesses except in Alberta where it applies to manufacturing and processing income.

[f] In Alberta and Ontario, the lower rate applies to manufacturing and processing income and, in Ontario, it also applies to mining, logging, farming and fishing income.

[g] The first number is the general capital tax rate and the second number is the rate applied to banks. In Manitoba, the general rate is 0.5 on capital over $10 million.

[h] The lower rate applies to premiums for life, sickness and accident insurance.

[i] Quebec's personal and corporate tax systems are not directly comparable to those in other provinces.

Budget Address 1989

Presented by the Honourable Dick Johnston
Provincial Treasurer
in the Legislative Assembly of Alberta
on Thursday, June 8, 1989

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1989 Budget Speech

Mr. Speaker, I am pleased to report that Alberta has a strong and healthy economy. Our successful diversification strategy is promoting the growth of new industries, generating higher investment and creating employment.

The budget I am introducing today responds to Albertans' priorities, and maintains quality people programs and services. It emphasizes the critical importance of the education of our children to the social and economic well-being of the province. It supports economic development and diversification. The budget helps ensure that economic growth will take place in a manner that protects our natural heritage for future generations of Albertans.

It reflects this government's ongoing commitment to responsible fiscal management. We have stood firm in our resolve to control expenditure. Since 1985-86, this government has, by far, the best record of expenditure management among the provinces. This has been achieved by choosing our spending priorities carefully. The program spending outlined in this budget is only 5.4% above the level in 1985-86. By comparison, inflation over this four-year period will be about 14.5%.

The budget proposes balanced measures to reduce the deficit and keep our economy moving.

Our budgetary plan recognizes and builds on those fundamental values that we wish to protect and nurture - the family, the community and a caring society.

Economic Situation and Outlook

Before describing our budget plan in detail, I would like to provide an overview of Alberta's current economic situation and the exciting opportunities that lie ahead.

Economic Resiliency and Diversification

When I presented the 1986 Budget Update to the Legislature, the Alberta economy was suffering from the effects of a dramatic fall in world prices for oil, natural gas and grain. Fears of a deep, long-lasting recession were widespread.

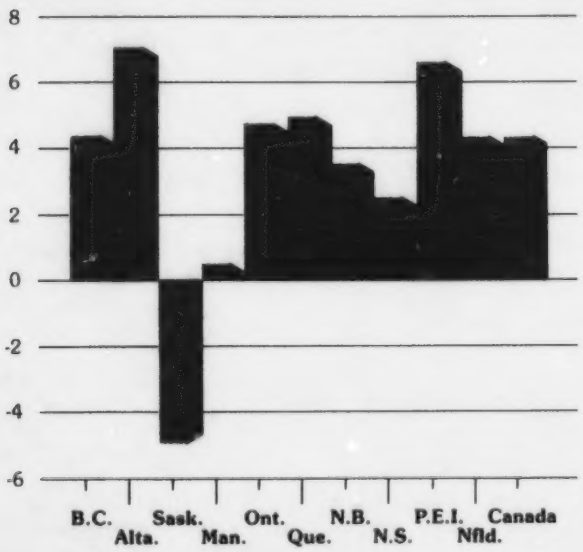
Alberta rebounded much faster than most observers had expected because of the resourcefulness of Albertans and the economic leadership of this government. Real economic activity increased by 3.3% in 1987 and the expansion accelerated in 1988. I estimate that our economy grew by more than 7% last year, making Alberta **the fastest growing province in Canada.**

The recovery over the last two years was led by our export sector. About one-half of Alberta's production is exported to the rest of Canada and other countries. The volume of our exports has grown by close to 20% since 1986. Natural gas sales to the United States were a major source of strength, increasing by about 80% in the last two years. However, weaker energy prices and the higher Canadian dollar left 1988 export revenues at about the same level as in 1987.

While the energy industry remains an important sector of the Alberta economy, our growing diversification has led to a strong expansion in the sale of manufactured goods outside Alberta. The volume of manufacturing exports grew by 8% in 1988, bringing the total increase over the last two years to almost 13%. The key growth industries were food processing and petrochemicals which build upon our strengths in agriculture and energy. Increased pro-

cessing of our raw materials in Alberta provides quality jobs and helps protect our economy from swings in commodity prices.

Real Economic Growth, 1988
(per cent)



Source: Conference Board of Canada

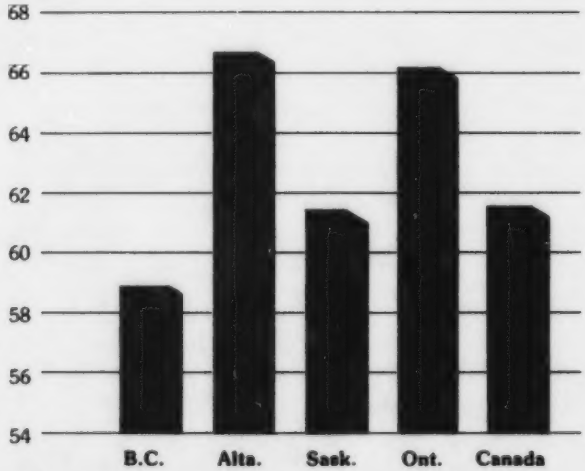
Tourism is a major thrust of our diversification policy. Receipts from visitors from the rest of Canada and other countries have climbed by more than 20% over the last two years. More and more Albertans, encouraged by the Take An Alberta Break program, are also vacationing here, in our beautiful province. Tourism revenues are at record levels.

With this government acting as a catalyst for diversification, investment in the Alberta economy has grown strongly since 1986. Real business investment in industries other than the energy sector climbed by almost 50% in the last two years. Manufacturing investment increased by 80% in 1988 alone. The massive expansion of Alberta's forestry industry was the major factor in this increase. In addition, construction started last year on new metal manufacturing and agricultural processing facilities in southern Alberta. The continuing momentum of our diversification initiatives will broaden further the economic base of our province.

Energy investment also recovered strongly in 1988. Provincial incentive programs helped provide the cash flow necessary to increase exploration and development.

Alberta's employment picture improved markedly in 1988 as the economy strengthened. Employment grew by 3.5% to 1,186,000. The unemployment rate averaged 8%, down sharply from 9.6% in 1987. More Albertans were employed in 1988 than in any other year in our history. The growth in employment was experienced throughout Alberta. Of the 40,000 new jobs created, 11,000 were located in Edmonton and 9,000 in Calgary, with the other 20,000 spread across the rest of the province.

Employment as a Percentage of Working Age Population, 1988



Source: Statistics Canada

Alberta continues to have more of its working age population employed than any other province. Two-thirds of Albertans of working age were employed in 1988 compared to less than 62% for Canada as a whole.

Increased job opportunities in Alberta led to net in-migration of 5,500 persons in 1988, the first positive inflow since 1982. Our growing population and improving incomes spurred housing construction. Housing starts in Alberta rose by 5% in 1988, on top of a 28% increase in 1987. In contrast, national housing starts fell by 10% last year.

Consumer spending recovered strongly as a result of the strength in employment and our provincial income tax reduction. Retail sales increased by over 7%; Alberta has the second highest retail sales per capita. Inflation in Alberta averaged just 2.7%, well below the national average of 4.1%.

Continued Solid Growth into the 1990's

I expect continued solid growth as we move into the 1990's. The leadership of this government will generate **over $10 billion of investment** in the forestry, energy and petrochemical industries by 1995.

The expansion of the pulp mill in Whitecourt was completed last year. Ten other major forestry projects are under construction or will be started shortly. The pulp and paper complex to be built in the Athabasca - Lac La Biche area will include the world's largest pulp mill. In total, the $3.5 billion in forestry investment will create about 10,000 construction jobs and over 4,000 permanent jobs for Albertans. Substantial spin-off investment and employment will also be generated. These projects will be developed in an environmentally sound manner. They will contribute significantly to the diversification of the Alberta economy.

Forestry Projects

Name	Location	Total Cost ($ millions)	Construction Employment (person years)	Permanent Employment (number of jobs)
Alberta Energy Company	Slave Lake	168	300	125
Alberta Newsprint Company	Whitecourt	379	720	375
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Weldwood of Canada	Hinton	393	1,140	370
Weldwood of Canada	Hinton	50	75	120
		3,493	9,970	4,065

Work has also begun on the $1.3 billion Husky Oil upgrader near Lloydminster. This project will upgrade our abundant supply of heavy oil to meet the growing demand for light oil in North America. The upgrader is another example of how further processing of our resources can create well-paying jobs for Albertans.

Construction of the $4 billion OSLO oil sands plant near Fort McMurray is expected to get underway in 1991. This plant will generate over 18,000 person years of employment during construction and require close to 3,000 permanent employees upon completion.

Another major positive for future growth in Alberta is the implementation of the Canada-United States Free Trade Agreement. This government was the first and strongest supporter of the Agreement. It secures access to the United States market for our resources, our manufactured goods and our services. The petrochemical industry, which currently faces some of the highest United States tariffs, will be a major beneficiary. New petrochemical projects, costing over $1.5 billion, are being planned in Alberta to take advantage of the growing opportunities.

The major projects underway in Alberta will be a key source of growth in 1989. I expect real business investment in the non-energy sectors to grow by 10%. This growth will be led by a 50% increase in manufacturing investment on top of the 80% increase in 1988. The Alberta Small Business Interest Shielding and Capital Loan Guarantee programs will enable small businesses to participate fully in this expansion.

Housing construction is also expected to increase in response to higher incomes and growing population. In the first four months of the year, housing starts in the major urban centres were up 22% from 1988 levels. The Alberta Mortgage Interest Shielding program is protecting Albertans against current high interest rates. In addition, the Alberta Family First-Home program is assisting Albertans to buy their first home in which to raise a family. Over 5,500 applications have already been received for these programs.

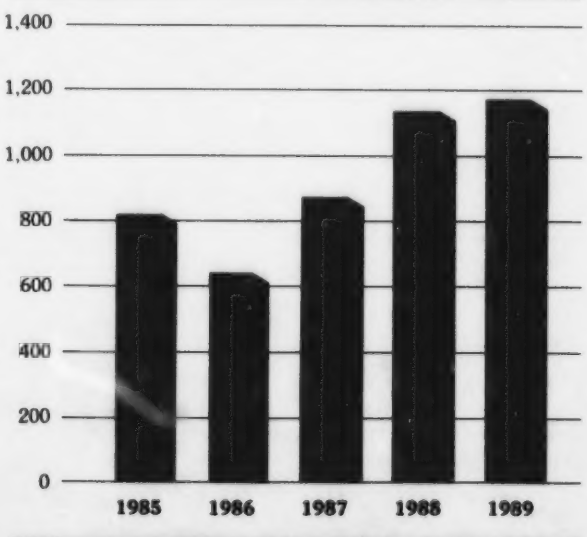
After strong investment in 1988, the energy industry scaled back its plans for early 1989. The industry is taking a "wait and see" attitude to the recovery in oil prices. If prices continue to be strong, I expect a significant improvement in energy investment later in the year.

Alberta will continue to lead the country in total investment per capita. **Alberta is on the move again** - building a strong and diversified economy to provide more jobs and higher incomes for Albertans.

Our export sector will continue to be strong as we enter the next decade. I do expect some moderation in 1989 from the extremely high growth rates of the last two years.

Natural gas exports to the United States grew by about 80% between 1986 and 1988, to almost 1.2 trillion cubic feet, an all-time record. Our share of the American market has increased from 4% to 6%.

Natural Gas Sales to the United States
(billions of cubic feet)



Demand for natural gas in the United States is expected to continue to grow as the economy expands. In addition, natural gas will increasingly displace other fuel sources because of the environmental superiority of this clean-burning fuel. The improved market access provided by deregulation and the Free Trade Agreement should allow Alberta producers to capture a larger share of this growing market.

We are now approaching the limits of our existing pipeline capacity which will moderate the increase in exports of natural gas to the United States this year. However, significant expansions in pipeline capacity are being planned to increase deliverability to California and the northeastern United States.

I expect our share of the U.S. market to approach 10% by about 1995. I also expect to see substantial price increases for natural gas over the next few years. Higher export volumes at higher prices will give a tremendous boost to both our economy and government finances in the early 1990's.

Exports by our manufacturing and processing industries will also increase. Petrochemicals and food processing will remain key industries. As the new forestry projects come on stream, the forestry industry will become one of the largest exporters in Alberta. I expect a 30% rise in pulp and paper exports this year as a result of increased production from the first completed project.

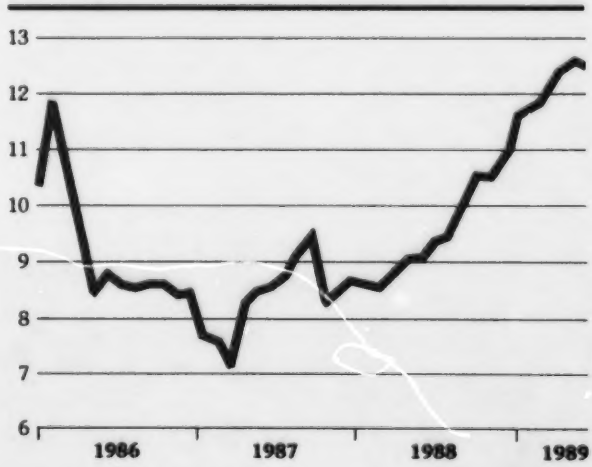
Advanced technology industries will be another source of growth in the 1990's, generating increased export revenue and creating high-skill jobs for Albertans. Applications of advanced technology continue to improve the productivity and competitive position of our resource industries and manufacturing firms. This government's strong support for basic research and the transfer of technology to commercial initiatives is building our knowledge-based sector.

Alberta's agriculture industry is a major source of export earnings. A return to more normal weather conditions should mean a good year for Alberta agriculture in 1989. Prices for grains and oilseeds are expected to be firm this year after last year's welcome recovery. This should help offset the expected reduction in payments from the Western Grain Stabilization program. Strong cattle prices will continue to benefit livestock producers and hog prices should stabilize.

I remain concerned about the agriculture subsidy war between the United States and the European Community, and the effect it has on our agriculture sector. The preliminary international agreement on agriculture is an encouraging sign. Much work still needs to be done during the Uruguay Round of trade negotiations to transform the agreement into concrete measures.

Continued economic expansion and the growing confidence of Albertans should result in another year of solid growth in consumer spending. Inflation in Alberta is expected to average about 4% this year, partly as a result of the tax increases in the recent federal budget.

Bank of Canada Rate
(per cent)



Source: Bank of Canada

While signs are positive for Alberta, our economic outlook for 1989 and the early 1990's will, of course, be influenced by economic conditions in other countries and the rest of Canada. The world economy has entered its seventh consecutive year of growth. Central banks are raising interest rates in an attempt to slow inflation without triggering a serious economic slowdown. This is a delicate balancing act.

There is growing agreement that the Bank of Canada has gone too far in raising interest rates because of its single-minded focus on inflation in southern Ontario. With the large tax increases in the recent federal budget, there is room for the Bank of Canada to lower interest rates significantly. Without a change in federal monetary policy, a downturn in the Canadian economy is a real possibility.

After weighing all these factors, I expect that real economic growth in Alberta will be about 3 to 3.5% in 1989. With Canadian growth expected to slow to less than 3% this year, our growth will, once again, exceed the national average.

Employment will also be strong in 1989, climbing to well over 1.2 million. Alberta is one of only two provinces with any significant employment growth in the first four months of this year. I expect that 25,000 jobs will be created for the year as a whole, on top of the 40,000 new jobs last year. **65,000 new jobs** in just two years is a clear sign of the success of this government's economic development and diversification strategy.

Fiscal Situation and Outlook

I will now briefly review the financial developments of the last two years before proceeding to our budgetary plan for 1989-90.

In 1987-88, the government developed a fiscal plan to take the province from a budgetary deficit of more than $3.4 billion in 1986-87 to a balanced budget over the following four years. The plan required measures to increase revenue and reduce expenditure.

The 1987-88 budgetary deficit was $933 million, a $2.5 billion improvement over the previous year. This strong performance was due mostly to resource revenue significantly exceeding our estimate. Higher-than-anticipated oil prices increased royalties and substantially boosted revenue from the sale of drilling rights.

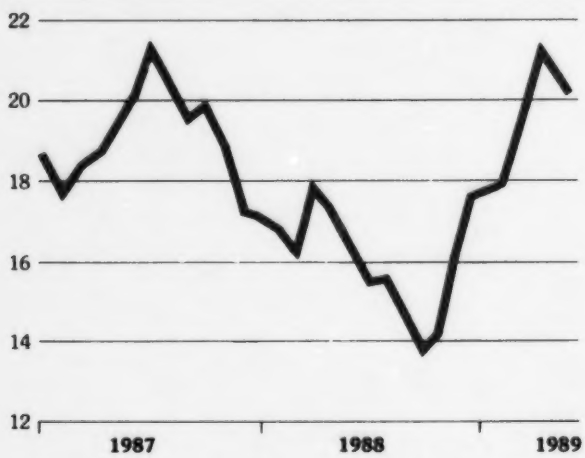
The reduction of more than 70% in the deficit in just one fiscal year generated increased confidence in our fiscal plan and gave the government some flexibility in developing our 1988-89 budget strategy.

1988-89 Fiscal Performance

The 1988 budget built on the success of the previous year. We used the improvement in the government's fiscal position and expectations of higher revenue to cut Albertans' personal income taxes and to allow a small increase in expenditure, while planning for a lower deficit.

Last year's revenue estimates were based on the assumption that West Texas Intermediate oil prices would average $18.50 per barrel in U.S. funds. This was in line with the expectations of analysts at that time. Although oil prices were strong at the start of 1988, they declined sharply as the year progressed in response to overproduction by several OPEC members. Consequently, the oil price for the 1988-89 fiscal year averaged $16.40 per barrel, about $2 per barrel lower than had been expected in March 1988. Natural gas prices were also lower, and the Canadian dollar showed unexpected strength which decreased export earnings.

Crude Oil Prices [a]
($U.S./bbl)



[a]West Texas Intermediate spot price at Cushing, Oklahoma

The combination of these three factors had a very large negative impact on our revenue from oil and gas royalties, sales of drilling rights, and corporate income taxes. Total resource-related revenue is expected to be $765 million below the budget estimate, as compared to the gain of $724 million in the previous year. What helped us two years ago hurt us last year.

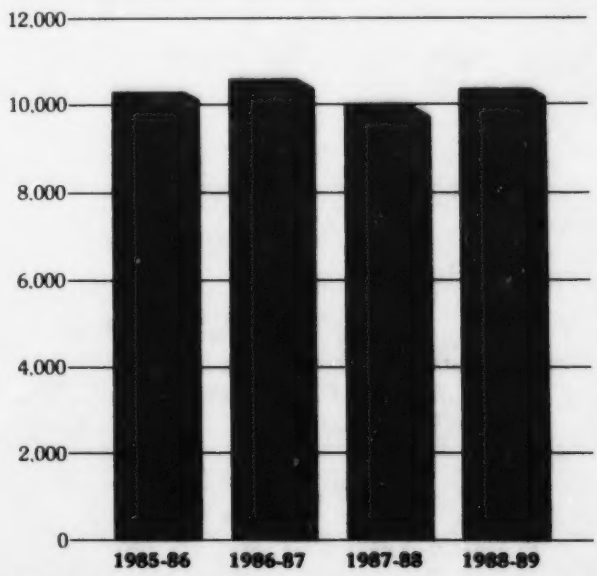
Following the 1988-89 budget, the government received several urgent requests for additional funds from post-secondary institutions, hospitals, school boards and Albertans in need of special assistance. In keeping with our commitment to maintain effective programs and services for Albertans, the government reviewed these requests and provided additional funds, where warranted.

I now expect the 1988-89 budgetary deficit to be approximately $1.7 billion, about $800 million higher than in 1987-88. Clearly, this is a setback to our plan to move steadily toward a balanced budget by 1991.

I am disappointed with the 1988-89 results. However, the cumulative budgetary deficit for the last two years is still slightly lower than the original fiscal plan target. Lower-than-anticipated resource revenue was the main cause of the increase in last year's deficit.

We cannot control world prices for oil, natural gas or grain. What we can do, however, is manage expenditure. Our record speaks for itself. In the three years from 1985-86 to 1988-89, this government kept total program expenditure essentially flat. We have the best expenditure management record in the country.

Program Expenditure[a]
(millions of dollars)



[a] General Revenue Fund

Even with this careful management and control of our expenditure, the province's annual deficits have moved up and down, reflecting the trends in oil

and gas prices and the Canadian dollar. The experience of the last three years has shown that oil prices will continue to fluctuate and remain difficult to predict.

To lessen Alberta's dependence on resource revenue, the government has taken vigorous action to broaden the base of our economy. Although diversification is progressing at a steady pace, it will be some time before these initiatives start to generate significant new tax revenue.

1989-90 Fiscal Strategy

Given the current environment, fiscal strategy must seek a balance between the need to reduce the deficit and the need to provide funding for Albertans' long-term social and economic objectives. We will continue to constrain growth in expenditure and work to reduce the deficit. At the same time, we cannot let our economic expansion falter by pursuing excessively restrictive fiscal policies. We must also continue to encourage private initiative and risk-taking by providing the best business climate in the country.

The government's fiscal action plan for 1989-90 has three main objectives.

- The first objective is to reduce the deficit, and move toward a balanced budget by 1991-92 as growth in the provincial economy and higher energy prices generate additional revenue. Natural gas holds special promise. Our revenue from the sale of natural gas is already as significant as royalties from oil production. Natural gas sales have shown phenomenal growth in the last two years and are expected to continue to be strong. Most analysts expect natural gas prices to firm up and show substantial increases over the next few years.
- Our second objective for 1989-90 is to limit tax increases by controlling the growth in expenditure. Our tradition of sound financial management provides us with the flexibility we need to be forward looking and continue to invest in our future. Thanks to the actions of the last two years to control expenditure, almost all of our revenue still goes to pay for services to Albertans. We spend about 8 cents of each dollar of revenue to pay interest on our debt. By comparison, other provinces, on average, spend approximately 12 cents of each dollar on servicing their debt and the federal government needs 35 cents of each revenue dollar to service the national debt.

Debt Servicing Costs as a Percentage of Revenue, 1989-90

8%
Alberta

12%
Other Provinces

35%
Federal Government

- The third objective of our plan is to continue to improve the management of government operations and programs. Further efficiencies will be achieved in our own administration. We will also stress the need for continued productivity gains by school boards, post-secondary institutions, hospitals and other health care agencies. Together they spend over 40% of the provincial program budget.

1989-90 Expenditure Plan

Over the last several months, we have met with and listened to thousands of Albertans from communities across the province. In developing our 1989-90 expenditure plan, we have carefully considered their views. Our main priorities for this year are to invest in quality education, to expand transportation and other required public infrastructure, and to keep the economy moving by protecting Albertans, and Alberta businesses, from high interest rates.

This year's expenditure plan will maintain the quality that Albertans have come to expect in their environment, health care and other public services. We will continue to foster a caring society by enhancing the special services and programs for our senior citizens and those in need.

Education - Our Priority Investment

Our children are our future. This government considers their education and training to be our most important responsibility. That is why **education** has again been given **top priority** in our spending plans.

Basic operating grants to school boards are being increased by 5.5%, the highest increase among the major grant programs. In the 1989-90 school year, school boards will receive about $1,140 in basic operating grants for each student enrolled in the Early Childhood Services program, $1,960 per elementary student, $2,110 for each junior high student and $2,270 for each senior high student.

Special education grants to school boards will be increased by nearly 11% to more than $92 million. These grants fund the extra costs of educating children with special needs, including gifted children. An additional $2.9 million has been committed to restore full funding of the Community Schools program and to establish a new program to meet the needs of children attending inner-city schools.

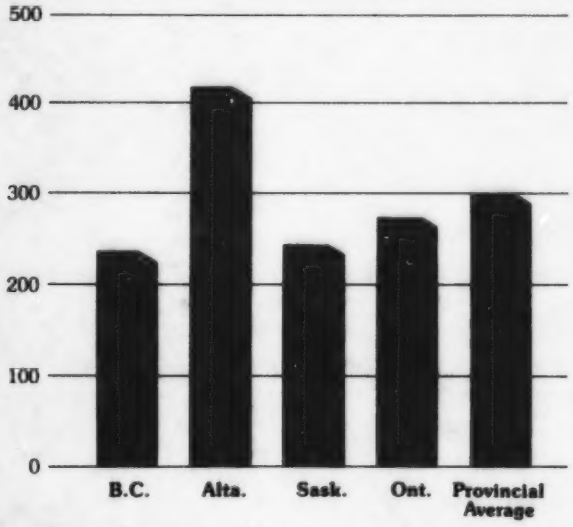
In line with the government's commitment under the new School Act, equity grants to fiscally disadvantaged school boards will be increased by more than 14%, to nearly $65 million. To enhance access to quality education for children in all communities across the province, funding for the Distance Education Initiative will be increased to more than $11 million.

On a school year basis, total provincial operating support for basic education will increase by over 8%. In 1989-90, the province has budgeted more than $1.5 billion to provide high-quality basic education to our children. We will spend **over $3,300 for each child** attending school in Alberta.

Our youth must also have access to quality post-secondary education if they are to realize their potential and contribute to the overall well-being of our province. The government has always considered its post-secondary institutions as a sound invest-

ment in our future. Alberta ranks **first** in per capita spending on **advanced education** in Canada.

Post-Secondary Education Spending, 1988-89
(dollars per capita)



Source: Statistics Canada

Basic operating grants to post-secondary institutions will increase by 5%, to a total of $811 million. In addition, nearly $35 million will be provided for equipment replacement, building renovations and site maintenance.

To enhance the educational opportunities available to Albertans, several new initiatives are being funded. An additional $3.1 million will be provided to the University of Lethbridge to expand its academic programs and administrative services. $2 million will be provided to expand university transfer programs at Red Deer College, Mount Royal College and Grant MacEwan Community College. Universities will receive $5.9 million to expand their business education programs.

This year, $8 million has been budgeted for the first-year costs of a new $80 million Alberta Advanced Education Endowment and Incentive Fund. This fund will provide one-to-one matching of private donations. It will assist post-secondary institutions in meeting the costs of research, new programs, scholarships and the construction of capital facilities.

In addition, about $94 million will be made available from the Capital Fund for the construction of post-secondary education facilities on campuses across Alberta.

Skilled workers are essential to an expanding economy. To meet anticipated shortages, a new on-the-job training program will be initiated. One hundred apprentices will receive training in government departments under the guidance of certified tradesmen. The budget provides $2 million for this new program.

To ensure that persons working in the tourism sector have the necessary skills, the government has budgeted $1.5 million for the Tourism Education Council. The Council, with active participation from industry, will further improve the level of service and professionalism now evident in our expanding tourism industry.

Including the education component of the department of Career Development and Employment, the 1989-90 budget provides about $1.2 billion for post-secondary education and training.

Total spending on the education of Albertans of all ages will be $2.7 billion or $3,140 per household. This is a record investment in human capital. It represents nearly one-quarter of our total program expenditure for the year.

Investing in Infrastructure

Efficient transportation infrastructure is basic to a modern economy. Our future economic growth requires ongoing investment in primary and secondary highways, and urban roads and streets. Albertans

in all communities need access to good transportation networks if we are to realize economic growth in all parts of the province.

To improve roads and streets in our cities, over $147 million has been allocated as the first-year cost of the **new $500 million Alberta Cities Transportation Partnership program.** Alberta's towns and villages will benefit from the new $75 million Streets Assistance program. $10 million has been budgeted for this program in 1989-90. Both these programs contain a new Community Safe Streets component. Counties and municipal districts will also receive increased funding for their transportation projects.

The government has allocated $100 million in 1989-90 to accelerate the planned development of **Alberta's secondary highways.** This is an increase of **$18 million** over last year's budget for the program. These highways are essential to the development of rural areas.

To prepare for the expected increase in road traffic from the OSLO project, over $15 million is budgeted for work on Highway 63 from north of Edmonton through Fort McMurray. In southern Alberta, the government is committed to twinning the highway from Calgary to Coutts. This highway, known as the Export Highway, will become even more important as a result of the Free Trade Agreement. Work on the twinning of the Yellowhead Highway and the Trans Canada Highway will continue.

The government will also spend nearly $54 million this year to develop transportation routes to support our expanding forestry sector. A further $28 million will be spent on building transportation links to other resource developments.

These prudent investments will create thousands of jobs across the province and will build a sound foundation for the future growth of Alberta.

Interest Shielding and Capital Access Programs

Interest rates have a strong influence on economic activity. High rates deter investment and hurt farmers, small businesses and homeowners. This government has repeatedly stressed its opposition to the high interest rate policy of the Bank of Canada. We remain concerned about the potential negative impact on the provincial economy.

To protect Albertans from high interest rates, we have announced programs for homeowners, small businesses, farmers and ranchers. This budget contains **$70 million** for assistance under these programs.

In addition to providing interest rate shielding, the government has made it easier for farmers, ranchers and small businesses to access capital. The government has announced a $500 million enhancement to the Alberta Farm Credit Stability program. The program will be extended for two years, to June 30, 1991. Since the program was originally introduced in 1986, about $1.7 billion worth of long-term credit has been made available to farmers and ranchers.

The government recognizes that securing financing is a major concern of most small businesses. A new $200 million Alberta Capital Loan Guarantee program will be established to address this need. Also, the government has moved to increase the availability of capital to small businesses from the Alberta Opportunity Company. $18 million will be provided by the Company in 1989-90 under its venture capital and new seed capital programs.

These programs will give Albertans the confidence to plan and invest for the future.

Support for Agriculture

Agriculture continues to play a fundamental role in building our province. It is our renewable resource strength. Our hard-working and productive farmers and ranchers make a unique contribution to the social and economic fabric of Alberta.

This government has a strong commitment to a healthy, competitive agriculture sector. We have unequalled programs to assist our farmers and ranchers with their input costs. In addition to maintaining existing programs, this budget reduces farmers' diesel fuel costs by another 5 cents a litre at a cost of $23 million. Alberta farmers will now receive a grant of 14 cents a litre on diesel fuel. In total, the budget for the purple fuel program has been set at $111 million for 1989-90. As well, Alberta farmers are exempt from Alberta's 5 cents a litre fuel tax.

We are committed to stabilizing farmers' and ranchers' incomes. We already participate in programs which stabilize incomes for producers of red meat products, sugar beets and dry edible beans. This budget will add to the income security of our farmers by providing $700,000 in 1989-90 for Alberta's participation in a new tripartite honey stabilization program.

This government is responsive to the changing needs of the agriculture sector. The 1989-90 budget contains funding for programs initiated in response to the 1988 drought. $8 million is budgeted for final payments under the Alberta Livestock Drought Assistance program. Nearly $6 million will be available to assist farmers and ranchers in developing water supplies to help protect against future shortages.

To assist agricultural producers in developing irrigation systems on their land, $1.8 million is budgeted for a new Private Irrigation Water Supply program. This $11 million program will be funded from the Capital Projects Division of the Heritage Fund. Soil conservation is important for the future of our agriculture industry and the government will provide $2.8 million for a new soil conservation program. Funding for the Oldman River dam and the provision of private telephone service to rural families will continue.

As previously announced, the Crow Benefit Offset program has been extended, at a cost of over $46 million in 1989-90. We have been working aggressively for a change in the federal Crow Rate policy. As a result of our discussions with the federal government, we are hopeful that they will move on this key agricultural issue in the near future. In the interim, our Crow Benefit Offset program will assist our livestock industry, but the level of support will be reduced to $10 per tonne, effective September 1, 1989.

We are negotiating with the federal and other provincial governments to make crop insurance more responsive to farmers' needs. Alberta will continue to press for improvements to the Canada-Alberta Crop Insurance program.

In total, the government will provide over **$600 million** in 1989-90 to support our farmers, ranchers and other agricultural producers. This represents an increase of $87 million over the amount budgeted last year. **Agriculture is this government's number one economic priority.**

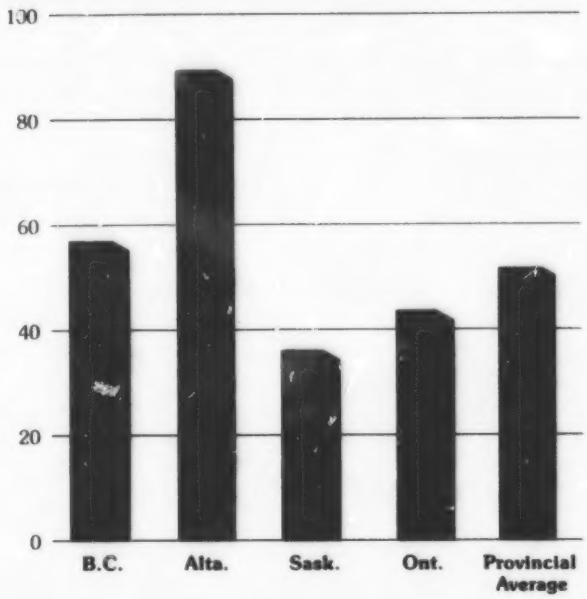
Enhancing the Quality of Life

Quality of life encompasses many things - a clean environment, quality public services, a strong sense of personal security and comprehensive health services. This budget enhances the quality of life in Alberta.

Alberta is a province of breathtaking beauty and great natural splendours. We will preserve Alberta's natural gifts for future generations. Alberta is a leader on environmental issues in Canada. Our per capita expenditure on environmental programs has consistently been at least 25 per cent higher than the provincial average. We are known for the pioneering steps we have taken on a number of environmental

issues, such as hazardous waste management and treatment. We will continue to lead the country in environmental legislation and standards.

Environment Expenditure, 1988-89
(dollars per capita)



Source: Statistics Canada

In 1989-90, we will provide ongoing support for a wide range of environmental measures including recycling, hazardous waste treatment, land reclamation, fish and wildlife conservation and environmental research. The **budget of the department of Environment will increase by more than 9% to $119 million.**

Several new and expanded programs are provided for in this year's budget. They include the development of a Centre of Expertise in Hazardous Waste Management, a five-year extension to the Land Reclamation program, a Pesticide Container program and a program to carry out an inventory of underground fuel storage tanks. Over $800,000 will be spent to enhance the enforcement of fish and wildlife regulations by hiring additional field staff.

Forest management agreements signed with the industry require that companies meet environmental and reforestation standards established by the province. In addition, we have budgeted over $22 million for programs designed to manage and enhance our forests.

This government will continue to ensure that Alberta's economic development takes place in an environmentally sensitive and sustainable manner.

Municipal and local services are an integral part of the public services that add to the quality of urban and rural life in Alberta. The unconditional municipal assistance grants under the Alberta Partnership Transfer program are being increased by 5%, to nearly $105 million. As well, municipalities will receive $19 million in transit operating grants. Payments to municipalities under the Alberta Municipal Partnership in Local Employment program will be increased by 18%, to nearly $68 million. These payments are in addition to the $52 million budgeted for the Municipal Debenture Interest Rebate program.

To enhance the quality of life in urban communities, $1 million is budgeted this year to help nine urban municipalities develop and expand recreation facilities for their residents. As well, we will double, to $4 million, our assistance to rural communities for the development, upgrading and operation of outdoor recreation facilities. These facilities provide Alberta families with increased opportunities to spend their leisure time together.

To ensure Albertans continue to have high levels of personal safety and security, grants to municipalities for policing services are being increased by 5%, to over $30 million. In addition, the budget for the Check Stop program has been increased by 7.7%, to $1.2 million.

The government recognizes the importance Albertans place on quality health care. To ensure continued access to the **finest medical care system** in the country, we will spend over **$3.5 billion,** or about $4,100 per household in 1989-90. This includes funding from the General Revenue Fund, the Alberta Health Care Insurance Fund, the Capital Fund and the Heritage Fund. Health expenditure will increase by 6.7%, or $220 million, over last year's budget.

To help pay for part of this increase, health care premiums for single and family contributors will be increased by $1.75 and $3.50 per month respectively, effective October 1, 1989. The increase is estimated to generate about $12 million in 1989-90. Senior citizens remain exempt from health care premiums. As well, 225,000 low income Albertans will pay no premiums.

The government is committed to addressing the concerns of nurses. $7.5 million has been budgeted for their educational and job-related needs as recommended by the Premier's Commission on Future Health Care for Albertans.

We have also budgeted $500,000 to initiate planning and draft legislation for an improved, province-wide ambulance system.

To **strengthen preventive care,** global operating grants to local health units will increase to nearly $130 million, an overall increase of nearly 27%. This includes an increase of over $7 million to deliver enhanced speech therapy services. As well, $1 million has been allocated to initiate a new screening program for early detection of breast cancer. $800,000 is budgeted to expand the vaccination program for children.

The funding for the Alberta Alcohol and Drug Abuse Commission will increase by $4.9 million. Funding is also being provided to initiate planning for the Alberta Family Life and Drug Abuse Foundation.

We remain committed to providing quality health care for Albertans. The ever-increasing costs of health care require that both the providers and the consumers of these services use our health care dollars effectively.

Support for Senior Citizens

This government has unparalleled services and programs for our senior citizens. We believe that our seniors deserve to live in security, dignity and comfort. This budget includes major funding increases and new initiatives to allow our senior citizens to live in their own homes and communities.

As the number of senior citizens grows, it becomes increasingly important that we find ways to meet their needs within the community rather than in expensive institutions. Funding for **Home Care** will be increased by **44% to $47 million.** Another $1.8 million has been budgeted to provide lower income seniors a grant of up to $700 to purchase approved medical alert systems.

A new home improvement program with grants ranging from $1,000 to $4,000, depending on income, will be initiated to assist seniors in upgrading their homes. We will also build 230 new self-contained apartments for seniors at a cost of nearly $16 million. Over $15 million is budgeted to build new lodges and upgrade existing facilities.

Our commitment to assist seniors to stay in their own homes is also reflected in the nearly $125 million for property tax rebates and renter assistance grants in this year's budget.

This package of programs, when combined with our other ongoing services, will raise our total commitment for **senior citizens to over $1 billion** in the 1989-90 fiscal year.

Helping Albertans in Need

We have been steadfast in helping Albertans with special needs. For example, in 1987-88, when total program expenditure declined by more than 4%, spending on social services increased by nearly 5%. This budget maintains the existing services for disadvantaged Albertans and provides increases in selected priority areas.

This government's support for **women's shelters** is being **increased by 24%** to $5.1 million. It will provide all shelters with higher assistance for basic necessities, and fund a new shelter in Peace River and six satellite safe homes in our northern communities. $200,000 is also budgeted for new public education and other initiatives to prevent family violence.

The maximum assistance provided to the handicapped for modifying their homes will be raised from $1,000 to $5,000, and the eligibility criteria will be broadened.

Caring for children who cannot remain with their own families is an important responsibility. This budget increases the support to persons who help with this demanding task. Foster parents' allowances were increased by 10% effective May 1, 1989. As well, an additional $1 million has been budgeted to double the number of parent-counsellor foster homes. These homes provide intensive support to children with special needs. Families adopting special-needs children will benefit from the establishment of a new post-adoption support program.

Alberta has an excellent day care system with over 40,000 children currently enrolled. This budget allocates $1.6 million to upgrade the qualifications of day care workers. To strengthen the monitoring of day care centres, the budget for the licensing unit will rise by $284,000. Effective September 1, 1989, the monthly **day care subsidy** rate for low income parents will be **increased by more than 20%** to $240 for the first child and $280 for each additional child.

We have been encouraging social assistance recipients to seek employment through the Employment Alternatives program. This budget quadruples, to $6 million, the funding for specialized assistance to help them prepare for employment.

This government will continue to meet its commitments to those Albertans who need special assistance.

Controlling the Growth of Public Expenditure

Over the last several years, the government has placed increasing emphasis on improving the productivity and cost-effectiveness of its internal operations. We will continue to emphasize value for money by restraining internal expenditures and reviewing the administrative efficiency of ongoing programs.

This year we have made a government-wide commitment to freeze travel budgets at last year's level and reduce hosting expenditures. Productivity gains will limit increases in wage and salary costs. The introduction of new programs and expansion of others, along with normal staff turnover, will ensure that no staff layoffs will be required.

We will initiate program cost reviews in several departments this year. The objective of these reviews will be to identify programs which might be capped, refocused with smaller budgets, or eliminated if a program is no longer essential. Albertans' needs are changing and the government must be prepared to adjust its programs to make the most effective use of tax dollars.

Careful control of spending on direct government programs has helped to accommodate increases in grants. Over 70% of total program expenditure is paid out in grants. School boards, post-secondary institutions, hospitals and other health care agencies receive $4.4 billion, over 40% of the total provincial program budget.

The availability of high quality health, education and other services to all Albertans depends in part on how efficiently these grant recipients deliver their programs. We are calling on them to manage even more effectively, to enhance productivity further, and to concentrate their funds on improving front-line people services.

All public institutions have the responsibility to provide the **best value for the taxpayer's dollar.**

Expenditure Plan in Summary

The government's expenditure plan for 1989-90 calls for program spending of $10.85 billion from the General Revenue Fund, an increase of 5.5% from the 1988-89 forecast level. This means that the **average annual growth in program expenditure has been only 1.3% since 1985-86.**

Debt servicing costs are estimated to increase to $825 million. We must continue to manage expenditure responsibly to prevent debt costs from taking up an ever-increasing share of the budget.

Including debt servicing costs, total expenditure from the General Revenue Fund is budgeted at $11.67 billion, an increase of 7.4% over 1988-89 forecast spending.

Taxation

Albertans enjoy the best public services in Canada at the lowest rates of taxation. This budget maintains our enviable position. There will be no increases in income taxes.

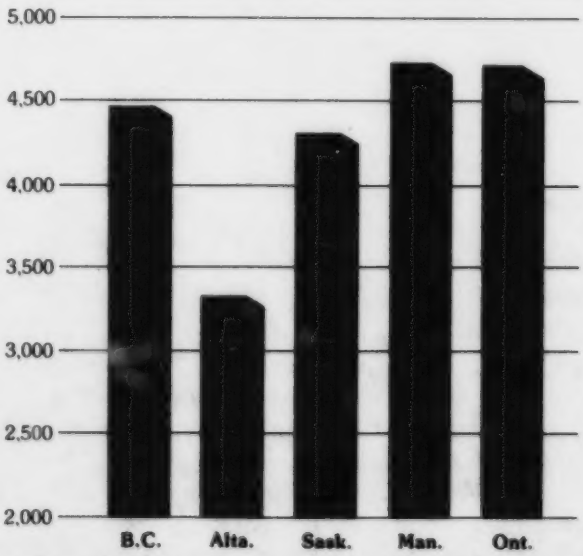
We will, however, increase the tobacco tax to rates comparable with those in other provinces. Effective midnight tonight, the rates on cigarettes and cigars will be increased by 20 per cent and the tax rate on loose tobacco will be increased from 1.5 cents to 2 cents per gram. As a result, I expect that our tobacco revenue will increase by $18 million over 1988-89.

It is important for Albertans to recognize that:

- we pay the lowest income taxes;
- we pay the fewest number of taxes, generally at the lowest rates; and
- we pay no provincial retail sales tax, unlike residents of every other province.

If we compare what a typical family pays in provincial taxes, the Alberta family pays about $900 less than a similar family in Saskatchewan, $1,100

Comparison of Provincial Taxes Payable[a]



[a] Family of four, gross income of $40,000. Includes provincial personal income tax, sales tax, health care insurance premiums, tobacco tax, fuel tax, and hotel room tax. Other provinces as of May 26, 1989.

less than the family in British Columbia, and $1,350 less than the comparable family in Ontario.

Alberta corporations benefit from a competitive tax climate, even after the large increase in corporate tax rates in 1987. Our corporate tax structure has encouraged corporations to invest and create jobs in Alberta. As a result, Alberta ranks first in per capita revenue from corporate income taxes. This helps pay for our quality public services.

Albertans are proud to live in the only province without a retail sales tax. I want to emphasize this government's strong opposition to the federal government's new Goods and Services Tax which will come into effect on January 1, 1991. Alberta was the first province to oppose the new federal value-added tax and we remain totally against it. In our view, this new federal sales tax will be inflationary and could lead to higher interest rates. It will not be revenue neutral - it will increase federal tax revenue. Regions outside central Canada will be hurt the most. At meetings of Finance Ministers, I have stressed Alberta's position and I will continue to do so.

Major Provincial Tax Rates, 1989

	Personal Income Tax[a]			Retail Sales Tax	Gasoline Tax Leaded	Tobacco Tax	Health Premiums[d] Individual/ Family	Corporate Income Tax		Capital Tax[g]	Payroll Tax	Insurance Premiums Tax[h]
	Basic Rate	High Income Surtax	Flat Rate Tax					Small Business Rate[e]	General Rate[f]			
	(%)	(%)	(%)	(%)	(¢/litre)	($/pack of 25)	($/month)	(%)	(%)	(%)	(%)	(%)
British Columbia	51.5	—	—	6	9.69	1.25	31.00/62.00	9	14	0/2.0	—	2/3
Alberta	46.5	8	0.5	—	5.0	1.20	19.75/39.50	0/5	9/15	—	—	2/3
Saskatchewan	50.0	12	2.0	7	12.0[b]	1.67	—	0/10	15	0.5/3.0	—	2/3
Manitoba	54.0	—	2.0/4.0	7	9.8	1.38[c]	—	0/10	17	0.3/3.0	2.25	2/3
Ontario	52.0	10	—	8	13.3	0.96[c]	29.75/59.50	10	14.5/15.5	0.3/0.8	—	2/3
Quebec	—[i]	—	—	9	14.4	1.13	—	—[i]	—[i]	0.5/1.01	3.36	2/3
New Brunswick	60.0	—	—	11	11.5	1.31[c]	—	9	16	0/3.0	—	2/3
Nova Scotia	56.5	—	—	10	8.9	1.13[c]	—	0/10	15	0/1.5	—	2/3
Prince Edward Island	57.0	10	—	10	8.6	1.18	—	10	15	0/1.5	—	2
Newfoundland	60.0	—	—	12	10.2	1.195[c]	—	0/10	16	0/2.0	—	4

Rates for other provinces known as of May 26, 1989.

[a] The high income surtax is a percentage of basic provincial tax above a specified level except in Saskatchewan where it is on total provincial tax. Alberta's flat rate tax is on taxable income. Saskatchewan's and Manitoba's are on net income; in Manitoba, an additional 2% is applied to high income taxpayers.

[b] Saskatchewan residents are entitled to an annual rebate of tax on their in-province purchases of fuel for personal use.

[c] Does not include provincial retail sales tax which is applied on top of tobacco tax.

[d] Alberta's rate is effective October 1, 1989. Ontario premiums will be replaced by a payroll tax in 1990.

[e] The 0% rate applies to start-up small businesses except in Alberta where it applies to manufacturing and processing income.

[f] In Alberta and Ontario, the lower rate applies to manufacturing and processing income and, in Ontario, it also applies to mining, logging, farming and fishing income.

[g] The first number is the general capital tax rate and the second number is the rate applied to banks. In Manitoba, the general rate is 0.5 on capital over $10 million.

[h] The lower rate applies to premiums for life, sickness and accident insurance.

[i] Quebec's personal and corporate tax systems are not directly comparable to those in other provinces.

Revenue Outlook

Total revenue is estimated at $10.18 billion, an increase of about $1 billion, or 11.5%, over the 1988-89 forecast. The revenue estimate assumes that oil prices will average $19 per barrel in U.S. funds over the fiscal year.

Our revenue estimate for this year includes $195 million in respect of our stabilization claim. Alberta applied to the federal government for compensation under the revenue stabilization provisions of the federal-provincial fiscal arrangements legislation. The stabilization program is designed to protect provinces from sudden year-over-year losses in revenue resulting from an economic downturn. British Columbia received $174 million for the decrease in their revenue in 1982-83. Alberta's entitlement is in respect of the 30% drop in our revenue in 1986-87.

The legislation requires that the claim exclude any decline in revenue due to changes in royalty and tax policies. Complex financial and legal issues are involved. We have been negotiating with the federal government. They accept the validity of our claim. The federal government has made a first payment of $75 million to Alberta, which has been included in last year's revenue. The act allows the federal government until December 31, 1990 to settle the claim.

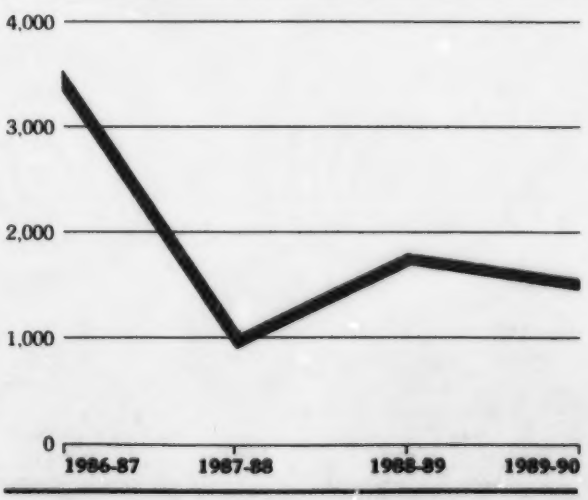
Albertans have paid more than their fair share of the costs of federal programs. We are entitled to payments for stabilization, and we expect to be treated in a just and equitable manner.

Financial Plan

In summary, the deficit of the General Revenue Fund is estimated at $1.49 billion on the basis of the revenue projections and spending plans I have described. This is a reduction of $245 million from the forecast 1988-89 deficit.

In addition to the cash requirements of the General Revenue Fund, borrowings of $232 million will be required to finance expenditure from the Capital Fund. As of March 31, 1989, the province has borrowed nearly $6.6 billion for these two funds. The expenditure of $141 million under the Capital Projects Division will be financed from the Heritage Fund.

General Revenue Fund Deficits
(millions of dollars)



Summary Financial Plan
(millions of dollars)

	1989-90 Estimate	1988-89 Forecast	1988-89 Estimate	1987-88 Actual
Budgetary Revenue				
General	8,861	7,879	8,574	8,113
Heritage Fund Investment Income	1,320	1,250	1,245	1,353
	10,181	9,129	9,819	9,466
Budgetary Expenditure				
Program	10,849	10,287	10,030	9,994
Debt Servicing Costs	825	580	460	405
	11,674	10,867	10,490	10,399
Budgetary Deficit	1,493	1,738	671	933

Conclusion

To conclude, Mr. Speaker, the 1989-90 budgetary plan seeks a balance between the need to reduce the deficit, and the need to fund quality programs and keep the economy moving.

It reduces the 1989-90 budgetary deficit by $245 million and meets fully our campaign commitments to Albertans.

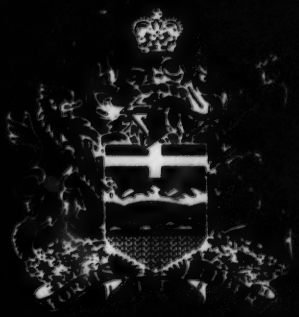
Albertans continue to pay the lowest provincial taxes in the country while having access to top quality services and programs. The budget protects the present and invests in our future.

Albertans have every reason to look to the future with confidence and optimism. The Alberta economy is diversifying. We are in the midst of a tremendous investment boom which will provide a wealth of economic opportunities. With Albertans working together, we will take our province to new levels of prosperity.

Net Cash Requirements
(millions of dollars)

	1989-90 Estimate	1988-89 Forecast	1988-89 Estimate	1987-88 Actual
General Revenue Fund				
Budgetary Deficit	1,493	1,738	671	933
Net Non-Budgetary Transactions	156	178	115	111
Adjustments to Cash Basis	(194)	(85)	(81)	(366)
	1,455	1,831	705	678
Capital Fund	232	200	225	251
Sinking Fund Requirements	17	17	16	15
Net Cash Requirements	1,704	2,048	946	944

Appendix A
General Revenue Fund



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General Revenue Fund

The General Revenue Fund is the primary operating account of the province. It receives all public money, except money which is specially designated otherwise by legislation or paid in trust to the province. The General Revenue Fund pays for the day-to-day operations and programs of government departments.

The annual budget of the province is concerned primarily with the operations of the General Revenue Fund. The term "budgetary" is used to describe revenue or expenditure that affects the net financial position of the General Revenue Fund.

The two major components of budgetary revenue are general revenue and Heritage Fund investment income. General revenue consists of taxes, non-renewable resource revenue, transfers from the Government of Canada, transfers from government enterprises, revenue from fees, permits and licences, and miscellaneous revenue. The Heritage Fund investment income category highlights the contribution made to budgetary revenue, since September 1982, by the transfer of all net income earned on Heritage Fund assets. The transfer of 15% of non-renewable resource revenue to the Heritage Fund was suspended in 1987-88.

Budgetary expenditure has two major components: voted and statutory. Expenditure made from the General Revenue Fund on the authority of supply votes approved by the Legislature, including special warrants ordered by the Lieutenant Governor in Council, is termed voted expenditure. Expenditure made on the authority of legislation, which directs that certain types of expenditure may be made without annual appropriation, is termed statutory expenditure. Statutory expenditure consists primarily of interest payments on public debt.

Budgetary expenditure is presented in the tables by functional category and by department. The departmental estimates for the current year are further divided into operating and capital expenditure. This year's estimates reflect the realignment of departments announced in September, 1988. The realignment involved the reallocation of some functions among departments. The most significant change was the creation of a new department of Health which combined the functions of the former department of Hospitals and Medical Care and some of the functions of Community and Occupational Health. Prior years' departmental figures have been restated where necessary to conform to the 1989-90 presentation.

Non-budgetary transactions include loans and advances to private and government enterprises, the issue and retirement of the province's debt instruments, and the purchase and sale of investments by the General Revenue Fund. They affect the financial assets and liabilities of the General Revenue Fund, but do not change the net financial position.

General Revenue Fund

TABLE A1

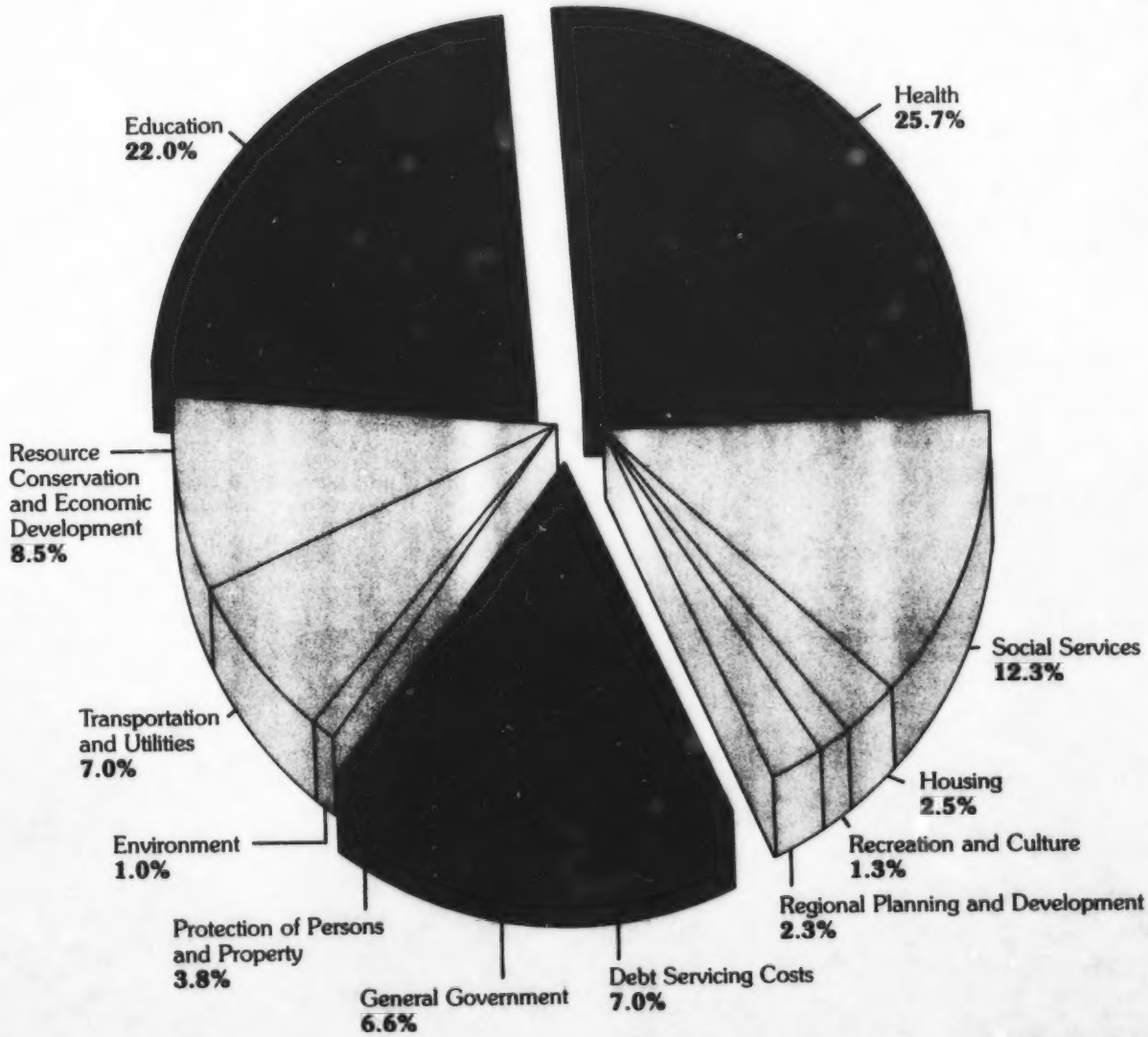
Budgetary Revenue and Expenditure

(thousands of dollars)

	1989-90 Estimate	1988-89 Forecast	1988-89 Estimate	1987-88 Actual
Revenue				
General Revenue				
Taxes	3,678,000	3,270,000	3,498,000	3,291,294
Non-Renewable Resource Revenue	2,612,000	2,165,000	2,782,000	2,549,815
Payments from Government of Canada	1,686,000	1,601,000	1,494,000	1,426,005
Transfers from Government Enterprises	407,000	391,000	365,000	399,833
Fees, Permits and Licences	289,000	266,000	274,000	250,142
Other Revenue	189,000	186,000	161,000	195,585
	8,861,000	7,879,000	8,574,000	8,112,674
Heritage Fund Investment Income	1,320,000	1,250,000	1,245,000	1,353,482
	10,181,000	9,129,000	9,819,000	9,466,156
Expenditure				
Health	2,995,984	2,785,527	2,731,750	2,519,224
Education	2,571,681	2,447,109	2,422,443	2,429,861
Social Services	1,433,155	1,396,277	1,358,975	1,329,356
Resource Conservation and Economic Development	991,866	923,128	876,441	927,809
Transportation and Utilities	813,514	782,106	771,743	829,610
Protection of Persons and Property	441,656	442,869	411,527	453,856
Regional Planning and Development	267,712	251,186	209,821	289,298
Housing	292,341	218,658	230,254	245,467
Recreation and Culture	151,245	154,961	156,308	168,233
Environment	119,372	117,788	108,691	100,657
General Government	770,391	767,578	751,871	700,678
Debt Servicing Costs	825,000	580,000	460,000	404,988
	11,673,917	10,867,187	10,489,824	10,399,037
Budgetary Deficit	1,492,917	1,738,187	670,824	932,881

Budgetary Expenditure
By Major Function, 1989-90 Estimate **CHART A1**

Total Budgetary Expenditure — **$11,674 million**



General Revenue Fund

Budgetary Revenue

(thousands of dollars)

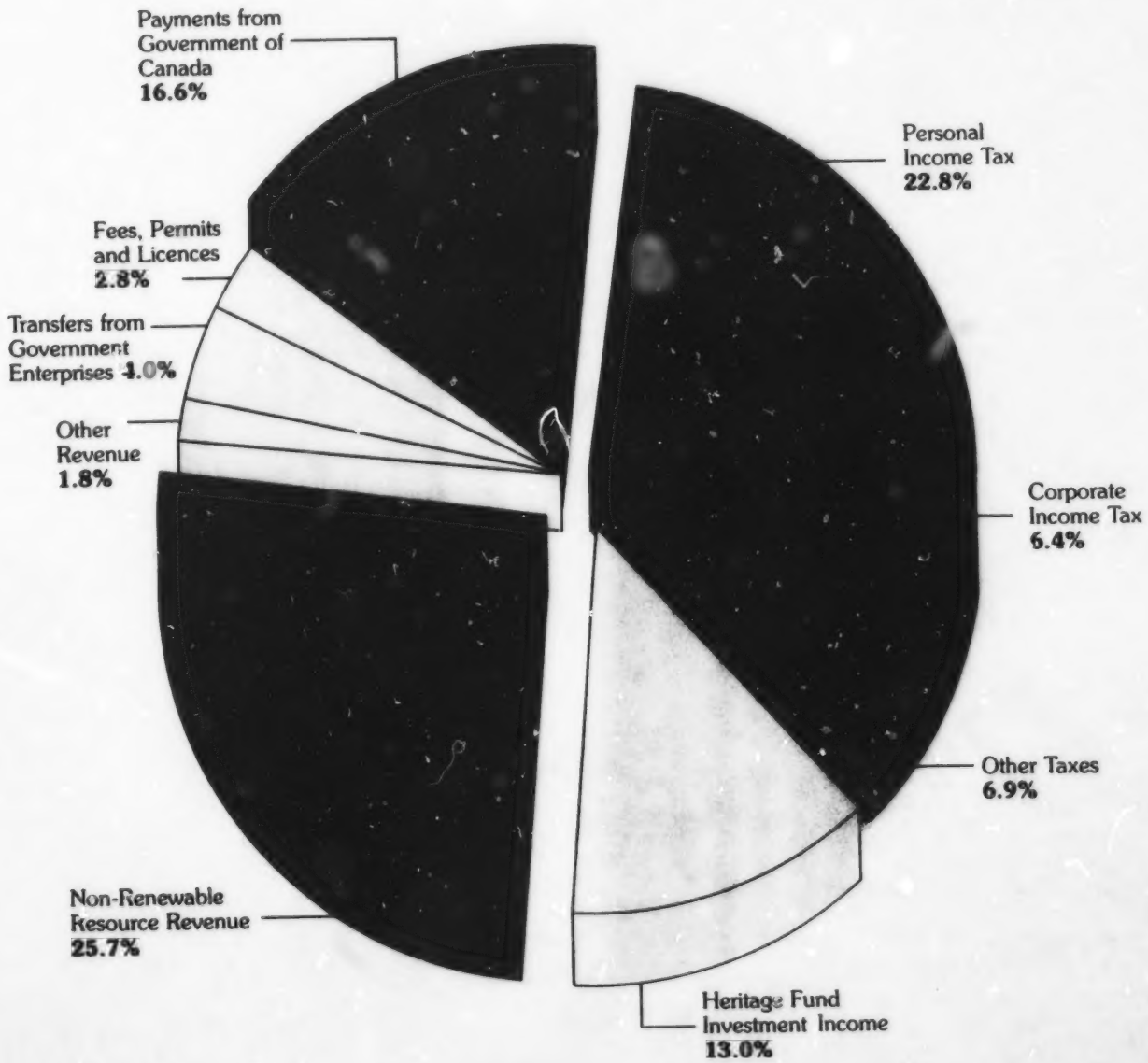
TABLE A2

	1989-90 Estimate	1988-89 Forecast	1988-89 Estimate	1987-88 Actual
Taxes				
Personal income tax	2,326,000	2,039,000	2,155,000	2,235,751
Corporate income tax	650,000	544,000	650,000	497,792
Fuel tax	290,000	309,000	283,000	208,703
Tobacco tax	230,000	212,000	214,000	182,789
Freehold mineral rights tax	89,000	79,000	121,000	92,209
Insurance corporations tax	60,000	56,000	48,000	49,739
Hotel room tax	23,000	22,000	18,000	15,046
Other taxes	10,000	9,000	9,000	9,265
	3,678,000	3,270,000	3,498,000	3,291,294
Non-Renewable Resource Revenue				
Crude oil royalty	1,222,000	961,000	1,160,000	1,330,213
Natural gas and by-products royalty	1,104,000	998,000	1,138,000	1,011,171
Synthetic crude oil and bitumen royalty	26,000	19,000	36,000	22,641
Coal royalty	10,000	11,000	8,000	7,665
Rentals and fees	79,000	82,000	76,000	77,410
Bonuses and sales of Crown leases	525,000	450,000	750,000	761,181
Less: Drilling, well servicing and geophysical incentives	—	0	(2,000)	(196,855)
Allocation to Alberta Petroleum Incentives Program Fund	—	—	—	(76,210)
Royalty tax credit	(350,000)	(345,000)	(380,000)	(383,314)
Allocation to Natural Gas Rebates Fund	(4,000)	(11,000)	(4,000)	(4,087)
	2,612,000	2,165,000	2,782,000	2,549,815
Payments from Government of Canada				
Canada Assistance Plan	482,000	485,000	435,000	446,739
Hospital insurance	469,000	497,000	491,000	442,380
Post-secondary education	265,000	286,000	283,000	250,172
Extended health care	125,000	118,000	118,000	112,801
Stabilization	195,000	75,000	—	—
Training of manpower	30,000	30,000	27,000	36,450
Other	120,000	110,000	140,000	137,463
	1,686,000	1,601,000	1,494,000	1,426,005
Transfers from Government Enterprises				
Alberta Liquor Control Board	390,000	374,000	350,000	383,000
Other	17,000	17,000	15,000	16,833
	407,000	391,000	365,000	399,833
Fees, Permits and Licences				
Motor vehicle licences	125,000	120,000	113,000	112,236
Other	164,000	146,000	161,000	137,906
	289,000	266,000	274,000	250,142
Other Revenue				
Investment income	50,000	50,000	40,000	46,282
Refunds of expenditure	70,000	65,000	58,000	64,731
Miscellaneous	69,000	71,000	63,000	84,572
	189,000	186,000	161,000	195,585
Total General Revenue	8,861,000	7,879,000	8,574,000	8,112,674
Heritage Fund Investment Income	1,320,000	1,250,000	1,245,000	1,353,482
Total Budgetary Revenue	10,181,000	9,129,000	9,819,000	9,466,156

Budgetary Revenue
By Major Source, 1989-90 Estimate

CHART A2

Total Budgetary Revenue — **$10,181 million**



General Revenue Fund

Budgetary Expenditure

(thousands of dollars)

TABLE A3

	1989-90 Estimate	1988-89 Forecast	1988-89 Estimate	1987-88 Actual
Legislative Assembly	34,826	33,367	31,379	26,723
Government				
Advanced Education	987,854	971,612	916,505	941,998
Agriculture	314,809	309,537	284,849	284,040
Attorney General	144,360	148,314	135,636	131,999
Career Development and Employment	180,729	176,905	202,120	209,122
Consumer and Corporate Affairs	19,126	16,074	16,172	14,396
Culture and Multiculturalism	47,761	46,724	46,917	49,452
Revolving Fund	42	(22)	(22)	(165)
Economic Development and Trade	70,500	52,486	51,270	64,260
Education	1,386,623	1,281,066	1,287,456	1,262,664
Revolving Fund	97	1,413	248	964
Energy	96,865	79,376	84,059	85,475
Environment	119,019	118,212	109,115	100,836
Water Resources Revolving Fund	354	(424)	(424)	(179)
Executive Council	79,714	97,247	82,197	129,591
Family and Social Services	1,292,911	1,272,766	1,223,646	1,203,102
Federal and Intergovernmental Affairs	9,308	8,826	9,227	7,909
Forestry, Lands and Wildlife	165,258	176,500	156,801	170,498
Revolving Fund	(9)	15	15	(220)
Health	2,982,178	2,770,854	2,718,285	2,507,373
Labour	37,936	36,142	35,760	34,721
Personnel Administration Office Revolving Fund	(23)	4	4	211
Municipal Affairs	690,843	614,710	615,147	618,844
Public Works, Supply and Services	493,440	515,253	528,689	464,766
Revolving Fund	19,862	9,355	8,699	(2,823)
Recreation and Parks	93,118	98,765	99,423	109,287
Revolving Fund	(9)	3	3	(12)
Solicitor General	258,232	239,317	240,914	235,059
Technology, Research and Telecommunications	60,628	62,228	63,193	63,163
Tourism	32,202	30,307	33,504	33,572
Transportation and Utilities	895,975	847,415	832,958	901,678
Revolving Fund	—	(2,302)	(2,208)	(28,393)
Gas Alberta Operating Fund	—	—	—	(1,091)
Treasury	174,282	160,879	148,591	214,585
Debt servicing costs	825,000	580,000	460,000	404,988
Other statutory appropriations	160,106	114,263	69,696	160,644
	11,639,091	10,833,820	10,458,445	10,372,314
Total	11,673,917	10,867,187	10,489,824	10,399,037
Summary				
Voted appropriations	10,668,497	10,164,882	9,953,813	9,865,113
Statutory appropriations	1,005,420	702,305	536,011	533,924
	11,673,917	10,867,187	10,489,824	10,399,037

General Revenue Fund

TABLE A4

Operating and Capital Expenditure

(thousands of dollars)

	1989-90 Estimate		
	Operating	**Capital**	**Total**
Legislative Assembly	34,263	563	34,826
Government			
Advanced Education	933,686	54,168	987,854
Agriculture	303,221	11,588	314,809
Attorney General	143,397	963	144,360
Career Development and Employment	180,193	536	180,729
Consumer and Corporate Affairs	18,829	297	19,126
Culture and Multiculturalism	45,740	2,021	47,761
Revolving Fund	39	3	42
Economic Development and Trade	69,986	514	70,500
Education	1,317,989	68,634	1,386,623
Revolving Fund	(110)	207	97
Energy	83,725	13,140	96,865
Environment	85,596	33,423	119,019
Water Resources Revolving Fund	(613)	967	354
Executive Council	79,034	680	79,714
Family and Social Services	1,287,549	5,362	1,292,911
Federal and Intergovernmental Affairs	9,152	156	9,308
Forestry, Lands and Wildlife	157,509	7,749	165,258
Revolving Fund	(80)	71	(9)
Health	2,953,245	28,933	2,982,178
Labour	37,280	656	37,936
Personnel Administration Office Revolving Fund	(28)	5	(23)
Municipal Affairs	671,514	19,329	690,843
Public Works, Supply and Services	305,793	187,647	493,440
Revolving Fund	(8,583)	28,445	19,862
Recreation and Parks	64,344	28,774	93,118
Revolving Fund	(9)	—	(9)
Solicitor General	257,158	1,074	258,232
Technology, Research and Telecommunications	56,397	4,231	60,628
Tourism	28,137	4,065	32,202
Transportation and Utilities	193,353	702,622	895,975
Revolving Fund	(13,289)	13,289	—
Treasury	173,275	1,007	174,282
Debt servicing costs	825,000	—	825,000
Other statutory appropriations	164,992	(4,886)	160,106
	10,423,421	1,215,670	11,639,091
Total	10,457,684	1,216,233	11,673,917
Summary			
Voted appropriations	9,490,365	1,178,132	10,668,497
Statutory appropriations	967,319	38,101	1,005,420
	10 457,684	1,216,233	11,673,917

General Revenue Fund

TABLE A5

Deductions from Income Tax Revenue

(thousands of dollars)

	1989-90 Estimate	1988-89 Forecast	1988-89 Estimate	1987-88 Actual
Personal Income Tax				
Alberta Stock Savings Plan	18,000	13,200	5,000	3,409
Renter assistance credit	—	—	—	95,838
	18,000	13,200	5,000	99,247
Corporate Income Tax				
Allocation to Utility Companies Income Tax Rebates Fund	97,414	98,730	93,832	92,854
Rental investment credit	150	545	200	170
	97,564	99,275	94,032	93,024
Total	115,564	112,475	99,032	192,271

General Revenue Fund

TABLE A6

Non-Budgetary Transactions*

(thousands of dollars)

	1989-90 Estimate	1988-89 Forecast	1988-89 Estimate	1987-88 Actual
Receipts				
Repayment of loans and advances				
Government enterprises	73,520	93,531	68,420	47,595
Other	16,625	13,958	26,793	21,361
Long-term investments	—	26,589	—	3,808
	90,145	134,078	95,213	72,764
Disbursements				
Loans and advances				
Government enterprises	77,800	115,473	76,200	58,153
Other	114,400	108,752	115,800	91,174
Long-term investments	53,778	88,062	18,350	34,099
	245,978	312,287	210,350	183,426
Net Disbursements	155,833	178,209	115,137	110,662

* Excludes debt transactions.

General Revenue Fund

TABLE A7

Unmatured Debt

(thousands of dollars)

Changes in Unmatured Debt		
Unmatured Debt at March 31, 1988		4,078,996
Add:		
Issue of:		
Canadian dollar debentures	1,446,500	
United States dollar 7-year notes	604,663	
Alberta Capital Bonds	86,992	
Amortization of discount and other non-cash items	165,418	
Allocation from sinking fund	12,500	
	2,316,073	
Deduct:		
Redemption of:		
Alberta Capital Bonds	304,840	
Canadian dollar promissory notes (net)	88,981	
Alberta treasury bills (net)	64,781	
United States dollar promissory notes (net)	35,584	
Canadian dollar debenture	12,500	
Sinking fund earnings	12,984	
Sinking fund contribution	4,306	
	523,976	
		1,792,097
Unmatured Debt at March 31, 1989*		5,871,093
Composition of Unmatured Debt		
Short-Term Debt		
Treasury bills		650,000
Canadian dollar promissory notes		557,000
United States dollar promissory notes		341,129
		1,548,129
Medium and Long-Term Debt		
Denominated in Canadian dollars		
Debentures (net)		2,458,545
Alberta Capital Bonds		30,610
Denominated in United States dollars		
7-year fixed rate notes		840,617
Floating rate notes		596,600
5-year fixed rate notes		341,578
		4,267,950
Deferred unrealized exchange gains less unamortized discount		55,014
Unmatured Debt at March 31, 1989*		5,871,093

* Forecast

General Revenue Fund

TABLE A8

Guarantees[a]

(thousands of dollars)

	At March 31		
	1989[b]	**1988**[c]	**1987**[c]
Guaranteed Debenture Debt			
AEC Power Ltd.	202,353	218,000	237,584
Vencap Equities Alberta Ltd.	40,000	40,000	40,000
Chembiomed Ltd.	12,500	12,500	—
	254,853	270,500	277,584
Guaranteed Loans			
Farm Credit Stability Fund Act	435,900	386,615	93,164
Small Business Term Assistance Fund Act	135,500	172,450	79,319
Weldwood of Canada Ltd.	133,440	—	—
Students Loan Guarantee Act	121,346	116,616	104,563
354713 Alberta Ltd.	98,300	90,983	87,292
Gainers Properties Inc.	55,000	55,000	—
Agricultural Societies Act	34,316	35,828	38,360
Feeder Associations	22,880	23,661	12,932
Millar Western Pulp Ltd.	—	21,332	—
Export Loan Guarantee Program	23,500	19,308	8,337
Other	78,160	77,790	34,348
	1,138,342	999,583	458,315
Total	1,393,195	1,270,083	735,899

[a] Excludes guaranteed liabilities of government entities.

[b] Forecast

[c] Readers should refer to the Public Accounts of Alberta for additional details.

General Revenue Fund

TABLE A9

Reported Assets, Liabilities and Net Debt*

(thousands of dollars)

	At March 31	
	19[illegible]	1987
Assets		
Cash and marketable securities	184,008	198,664
Accounts receivable	541,325	579,049
Long-term investments	113,877	92,673
Loans and advances to government enterprises	345,314	359,442
Other loans and advances	103,094	84,445
	1,287,618	1,314,273
Liabilities and Net Debt		
Liabilities		
Accounts and loans payable	738,213	678,780
Unearned revenue and suspense	36,966	36,740
Unmatured debt	4,078,996	3,232,429
	4,854,175	3,947,949
Net Debt		
Net debt (assets) at beginning of year	2,633,676	(806,733)
Budgetary deficit	932,881	3,440,409
Net debt at end of year	3,566,557	2,633 676
	1,287,618	1,314,273

* Readers should refer to the Public Accounts of Alberta for explanatory notes and supporting schedules.

Appendix B
Alberta Heritage Savings Trust Fund

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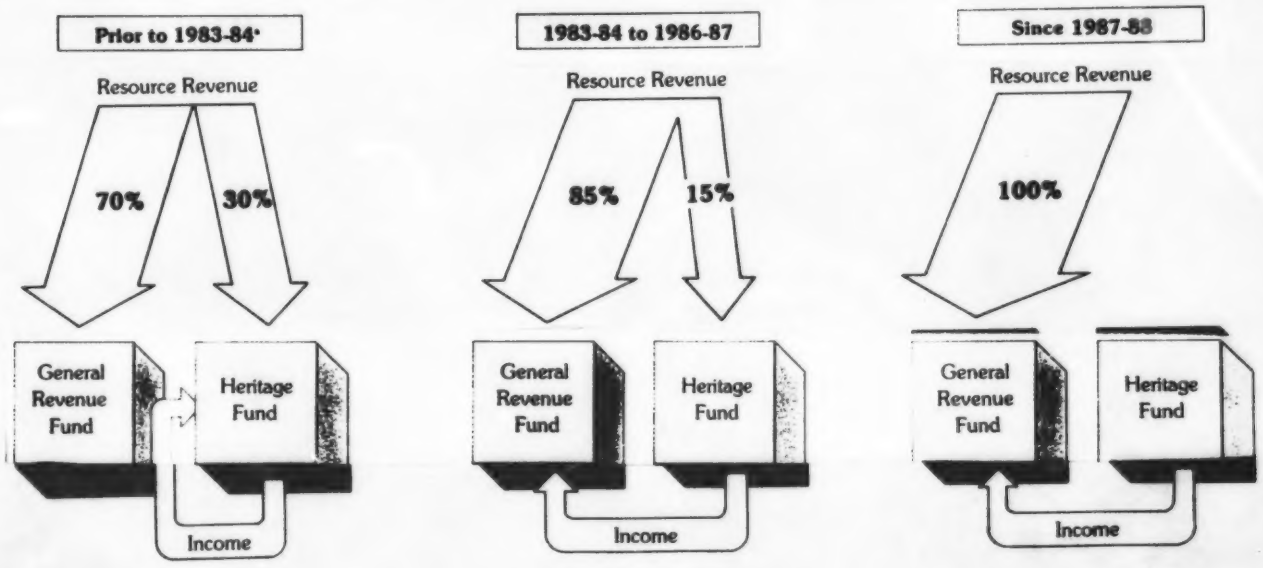
Alberta Heritage Savings Trust Fund

The Alberta Heritage Savings Trust Fund's net income, estimated at $1,320 million in 1989-90, will continue to be transferred to the General Revenue Fund to help meet budgetary needs. Including the 1989-90 income, approximately $10.9 billion will have been transferred to the province's budgetary revenues since September, 1982. Prior to that, all investment earnings of the Heritage Fund were retained and reinvested in the Fund. Also, since 1987-88, all non-renewable resource revenue has been retained in the General Revenue Fund to help reduce the budgetary deficit.

In 1989-90 the Heritage Fund will invest in two new major projects to develop further the resource sector. During the year, $38.9 million will be invested in the Lloydminister Bi-Provincial Upgrader as part of the province's participating interest in the $1.27 billion project. The total commitment of the provincial government to the upgrader is $305 million. In addition, the Heritage Fund will invest $6.8 million in the OSLO Oil Sands Project near Fort McMurray as part of the province's equity participation in the $4.1 billion plant. The total Alberta equity commitment to the plant is estimated at $310 million.

Capital Projects Division estimates total $141.2 million in 1989-90 and will support 15 capital projects. These projects include the development of irrigation in southern Alberta, the provision of individual telephone line service to rural Albertans, research into oil sands recovery processes and new agriculture techniques.

The Heritage Fund's Role in the Province's Fiscal Strategy **CHART B1**



*The use of Heritage Fund investment income by the General Revenue Fund started in September 1982.

Alberta Heritage Savings Trust Fund
Sources and Applications of Funds
(thousands of dollars)

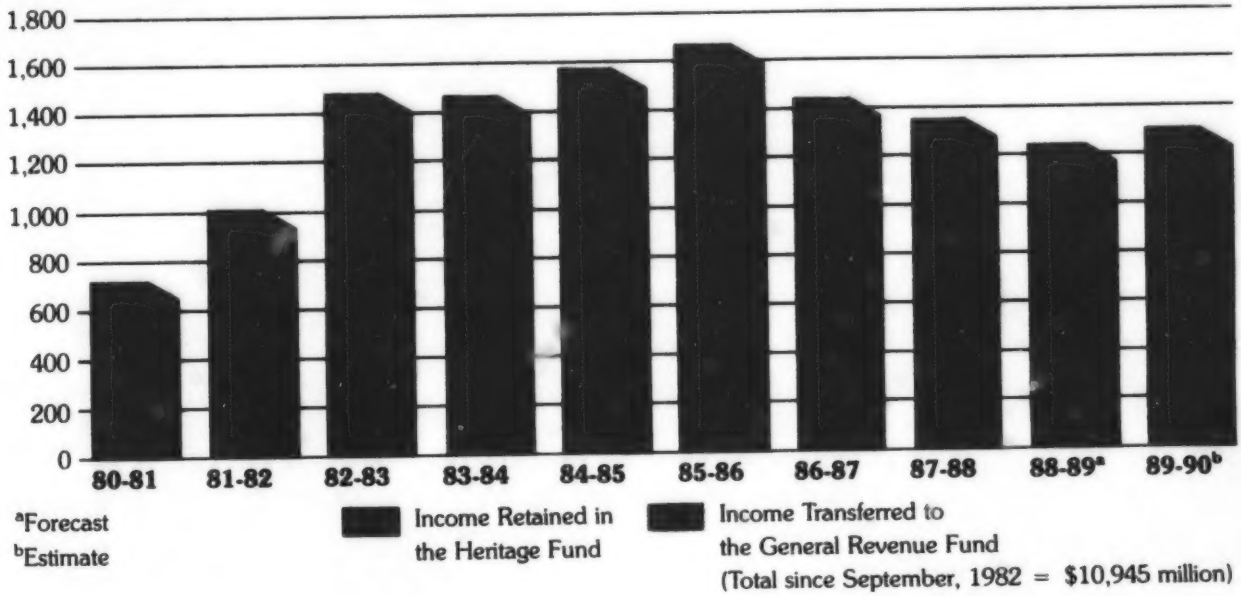
TABLE B1

	1989-90 Estimate	1988-89 Forecast	1988-89 Estimate	1987-88 Actual
Sources of Funds				
Repayments, Maturities and Disposals*				
Alberta Investment Division	638,700	432,600	455,600	997,662
Canada Investment Division	83,300	83,300	83,300	389,300
Energy Investment and Capital Projects Divisions	1	1,251	3,800	7,501
	722,001	517,151	542,700	1,394,463
Net investment income	1,320,000	1,250,000	1,245,000	1,354,848
Transfer of net income to the General Revenue Fund	(1,320,000)	(1,250,000)	(1,245,000)	(1,353,482)
Provision for non-cash items and administrative expenses	27,900	15,300	14,100	(21,075)
	749,901	532,451	556,800	1,374,754
Applications of Funds				
Capital Projects Division	141,238	164,315	164,460	129,076
Alberta Investment Division				
Alberta Agricultural Development Corporation	42,000	47,000	90,000	41,000
Alberta Mortgage and Housing Corporation	115,000	76,000	188,000	155,000
Alberta Opportunity Company	39,000	85,000	112,000	48,000
Total provincial corporations	196,000	208,000	390,000	244,000
Alberta Small Business Term Assistance Plan	—	—	—	200,000
Millar Western Pulp Ltd.	—	69,307	69,000	50,693
Syncrude	27,980	9,700	15,700	25,612
Alberta Energy Company	—	30,000	—	—
NOVA Corporation of Alberta	—	—	—	150,000
Lloydminster Bi-Provincial Upgrader	38,900	2,417	—	—
OSLO Oil Sands Project	6,800	—	—	—
	269,680	319,424	474,700	670,305
Commercial Investment Division	34,000	25,100	29,600	30,123
Increase (Decrease) in Cash and Marketable Securities at cost	304,983	23,612	(111,960)	545,250
	749,901	532,451	556,800	1,374,754

* Excludes Marketable Securities.

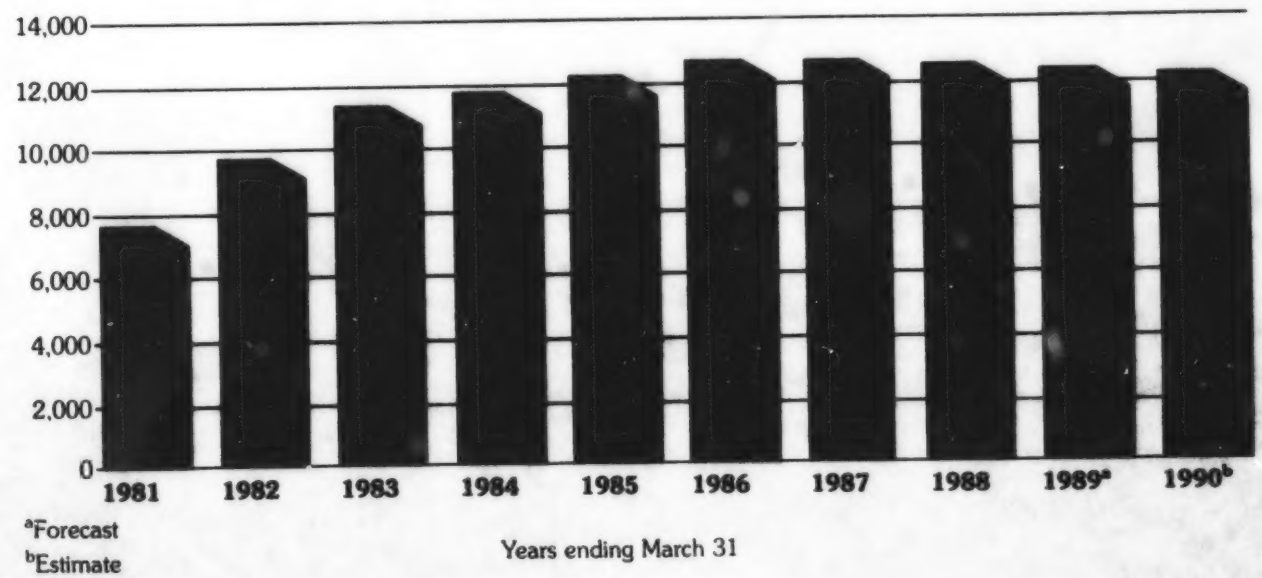
Alberta Heritage Savings Trust Fund Net Income
(millions of dollars)

CHART B2



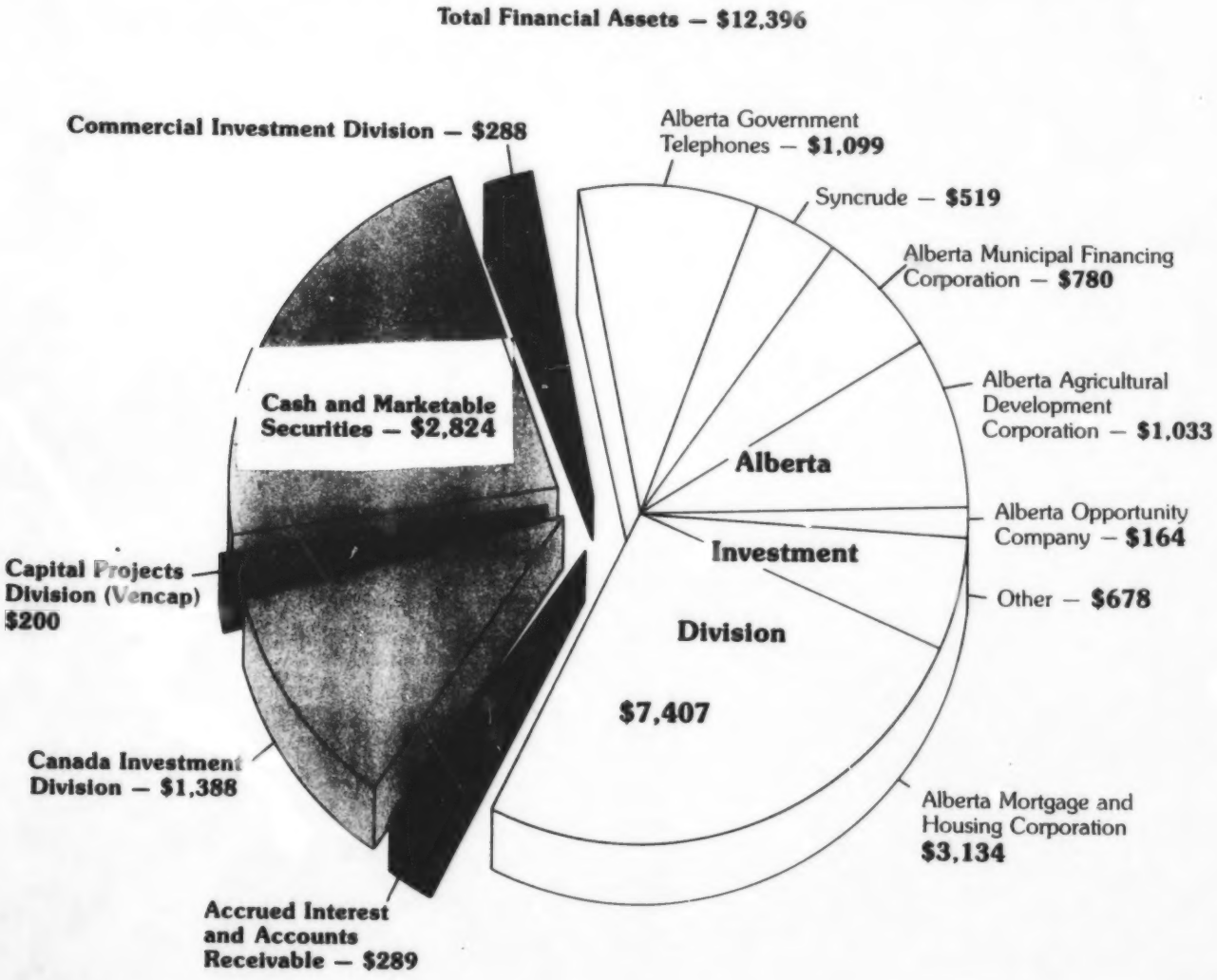
Alberta Heritage Savings Trust Fund Financial Assets
(millions of dollars)

CHART B3



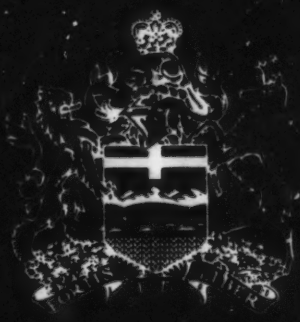
Composition of Alberta Heritage Savings Trust Fund Financial Assets at March 31, 1989[a]
(millions of dollars)

CHART B4



[a]Forecast

Appendix C
Other Major Regulated Funds



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Other Major Regulated Funds

This appendix provides information on the Alberta Capital Fund and the funds established for the operation of the Alberta Farm Credit Stability Program and the Alberta Small Business Term Assistance Plan.

Alberta Capital Fund

The Alberta Capital Fund was established in 1986 to enable the province to pay the construction costs of major public facilities over their useful lives. The Capital Fund borrows the amount required to finance approved construction projects and receives annual departmental appropriations from the General Revenue Fund to fund principal repayments. The interest costs of the borrowings are included in Treasury's statutory appropriation for debt servicing costs.

The 1988-89 Capital Fund estimate of $308 million is expected to be underspent by about $20 million as a result of project rescheduling and cost savings. At March 31, 1989, the Capital Fund had unmatured debt of $697 million owed to the holders of 1987 and 1988 Alberta Capital Bonds.

In 1989-90, the Capital Fund will spend an estimated $306 million on hospitals, nursing homes, post-secondary education facilities, water development projects, museums, and economic development infrastructure. Details of the projects to be funded can be found in the "1989-90 Capital Fund Estimates" and the "1989-90 Government Estimates and Capital Fund Estimates, Supplementary Information - Element Details".

TABLE C1

Alberta Capital Fund
Sources and Applications of Funds
(thousands of dollars)

	1989-90 Estimate	1988-89 Forecast	1988-89 Estimate	1987-88 Actual
Sources of Funds				
Grants from the General Revenue Fund	46,565	34,940	37,703	22,016
Voted appropriations for principal repayment	95,000	57,000	55,300	29,926
Statutory appropriation for interest payments	—	17,106	—	8,248
Non-cash items	231,663	200,354	225,440	251,369
Increase in debt	373,228	309,400	318,443	311,559
Applications of Funds				
Capital Expenditure	105,577	154,800	158,816	149,436
Hospitals and nursing homes	93,736	62,800	82,986	38,675
Post-secondary education facilities	106,615	70,800	66,300	27,264
Water development and other projects	305,928	288,400	308,102	215,375
	95,000	57,000	55,300	29,926
Debt servicing costs	(27,700)	(36,000)	(44,959)	66,258
Increase (Decrease) in financial assets	373,228	309,400	318,443	311,559

Alberta Capital Fund
Unmatured Debt
(thousands of dollars)

TABLE C2

Changes in Unmatured Debt		
Unmatured debt at March 31, 1988		496,469
Add:		
Issue of Alberta Capital Bonds	198,263	
Amortization of discount	2,091	
		200,354
Unmatured debt at March 31, 1989*		696,823
Composition of Unmatured Debt		
Alberta Capital Bonds		696,823
Unmatured debt at March 31, 1989*		696,823

* Forecast

Alberta Farm Credit Stability Program

The Alberta Farm Credit Stability Program was established in 1986 to facilitate the provision of long-term fixed interest rate financing to Alberta farmers. The original program commitment was to support up to $2 billion of farm financing at a fixed 9% annual rate of interest for a maximum term of 20 years. Legislation will be introduced to allow for the extension of this program to June 30, 1991 with an incremental funding commitment of $500 million. Cumulative loan advances reached $1.7 billion by March 31, 1989, and are forecast to be about $2.0 billion by March 31, 1990.

In March 1989, the limit on program loans was increased from $200,000 to $250,000 per farm family and from $600,000 to $750,000 per farm business for refinancing existing debt and making new purchases. The average farm loan size has been about $94,000 with 77% of the loans taken for a term of 20 years. To date, 75% of the loans have been used for refinancing and the remainder, 25%, for new purchases.

The province maintains deposits with participating chartered banks, credit unions and Treasury Branches equal to the amount of program loans they have outstanding. During 1988-89, Canadian $121 million of the proceeds of a 7-year U.S. $600 million (Canadian $726 million) issue in the Euro-bond market was used to finance these deposits. At the end of March 1989, 77% of the financing for the Farm Credit Stability Program was medium and long-term and the remaining 23% was in the form of short-term promissory notes.

The statutory appropriation from the General Revenue Fund to cover the payments made to the lending institutions for their administrative costs, and the difference between interest paid on borrowed funds and that earned on deposits of the Farm Credit Stability Program in 1989-90 is estimated at $34 million.

TABLE C3

Farm Credit Stability Fund
Sources and Applications of Funds
(thousands of dollars)

	1989-90 Estimate	1988-89 Forecast	1988-89 Estimate	1987-88 Actual
Sources of Funds				
Statutory appropriation from the General Revenue Fund	34,000	18,700	28,000	25,089
Increase in debt	217,000	120,187	120,000	168,577
Non-cash items	—	—	—	74,940
	251,000	138,887	148,000	268,606
Applications of Funds				
Operating deficit before statutory appropriation	34,000	18,700	28,000	25,089
Deposits with financial institutions (net)	217,000	121,750	120,000	239,207
Increase (Decrease) in other financial assets	—	(1,563)	—	4,310
	251,000	138,887	148,000	268,606

TABLE C4

Farm Credit Stability Fund
Unmatured Debt
(thousands of dollars)

Changes in Unmatured Debt		
Unmatured debt at March 31, 1988		1,369,245
Add:		
Issue of U.S. dollar 7-year notes	120,933	
Amortization of discount and other non-cash items	20,710	
	141,643	
Deduct:		
Redemption of short-term promissory notes (net) held by the Heritage Fund (Cash and Marketable Securities)	21,456	
		120,187
Unmatured debt at March 31, 1989*		1,489,432
Composition of Unmatured Debt		
Promissory notes issued to the Heritage Fund (Cash and Marketable Securities)		339,145
U.S. dollar 5-year fixed rate notes		409,916
U.S. dollar 7-year fixed rate notes		363,276
Swiss franc bonds		281,765
Deferred unrealized exchange gains		95,330
Unmatured debt at March 31, 1989*		1,489,432

* Forecast

Alberta Small Business Term Assistance Plan

The Alberta Small Business Term Assistance Plan was established in 1986 to make long-term fixed interest rate financing available to Alberta small businesses. Small business loans have a fixed 9% annual rate of interest and a maximum term of 10 years. Loans of up to $150,000 per small business were available for refinancing existing debt, making new purchases, or extending lines of credit. The average loan size was about $80,000 with 36% of the loans taken for 3 to 6 years and 58% for 10 years. 72% of the loans were used for refinancing and the remainder for new purchases and extending lines of credit.

The province maintains deposits with participating financial institutions equal to the amount of program loans they have outstanding. These deposits have been financed with medium-term borrowing.

The statutory appropriation from the General Revenue Fund to cover the payments made to the lending institutions for their administrative costs, and the difference between interest paid on borrowed funds and that earned on deposits of the Alberta Small Business Term Assistance Plan in 1989-90 is estimated at $6 million.

Small Business Term Assistance Fund

Sources and Applications of Funds

(thousands of dollars)

TABLE C5

	1989-90 Estimate	1988-89 Forecast	1988-89 Estimate	1987-88 Actual
Sources of Funds				
Statutory appropriation from the General Revenue Fund	6,000	10,000	12,000	12,638
Increase (Decrease) in debt	(150,000)	(59,262)	(120,000)	(37,924)
Non-cash items	—	—	—	21,402
	(144,000)	(49,262)	(108,000)	(3,884)
Applications of Funds				
Operating deficit before statutory appropriation	6,000	10,000	12,000	12,638
Deposits with financial institutions (net)	(105,500)	(108,400)	(120,000)	(17,911)
Increase (Decrease) in other financial assets	(44,500)	49,138	—	1,389
	(144,000)	(49,262)	(108,000)	(3,884)

TABLE C6

Small Business Term Assistance Fund
Unmatured Debt
(thousands of dollars)

Changes in Unmatured Debt		
Unmatured debt at March 31, 1988		482,539
Add:		
Amortization of discount	738	
Deduct:		
Redemption of short-term promissory notes (net) held by the Heritage Fund (Cash and Marketable Securities)	10,000	
Redemption of short-term promissory notes held by the Heritage Fund (Alberta Investment Division)	50,000	
	60,000	
		(59,262)
Unmatured debt at March 31, 1989*		423,277
Composition of Unmatured Debt		
Promissory notes issued to the Heritage Fund (Alberta Investment Division)		150,000
U.S. dollar 5-year fixed rate notes		273,277
Unmatured debt at March 31, 1989*		423,277

* Forecast

Appendix D
Provincial Crown Corporations

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Provincial Crown Corporations

This appendix provides details of the 1989-90 capital budgets and financing requirements of four major provincial Crown corporations: Alberta Agricultural Development Corporation, Alberta Mortgage and Housing Corporation, Alberta Opportunity Company and Alberta Municipal Financing Corporation.

To carry out their capital programs, approval of the Legislative Assembly will be sought to allow the Alberta Heritage Savings Trust Fund to invest in debt securities to be issued by the Alberta Agricultural Development Corporation, the Alberta Mortgage and Housing Corporation and the Alberta Opportunity Company. These corporations have borrowed from the Heritage Fund at prevailing market rates of interest in previous years.

These three corporations provide loans and other programs to their clients. Loans may be made at rates which are below the corporations' cost of funds in order to meet government objectives. The clients are responsible for payment of interest and principal on these loans.

The General Revenue Fund pays for the costs associated with the programs offered by these Crown corporations. These costs include administrative costs, interest rate subsidies and incentives, and the cost of losses on loans. Details of the support provided by the General Revenue Fund can be found in the "1989-90 Government Estimates".

The Alberta Municipal Financing Corporation is expected to continue to meet its capital financing requirements from internal sources and by borrowing from the Canada Pension Plan Investment Fund.

Heritage Fund Investment in Provincial Crown Corporations
(Alberta Investment Division)
(thousands of dollars)

TABLE D1

	Balance at March 31, 1990 Estimate	Investments Estimate	Repayments Estimate	Balance at March 31, 1989 Forecast
Alberta Agricultural Development Corporation	1,041,000	42,000	34,400	1,033,400
Alberta Mortgage and Housing Corporation	3,013,200	115,000	236,000	3,134,200
Alberta Opportunity Company	161,600	39,000	41,200	163,800
Alberta Municipal Financing Corporation	710,000	—	70,000	780,000
Alberta Government Telephones Commission	998,800	—	100,000	1,098,800
Total	5,924,600	196,000	481,600	6,210,200

Alberta Agricultural Development Corporation

The Alberta Agricultural Development Corporation provides loans and loan guarantees to farmers and agribusinesses. The corporation's programs are designed to foster the establishment and maintenance of family farms, improve their productivity, and encourage local processing of the province's agricultural products.

During 1989-90, the corporation estimates that it will extend $90 million in direct loans to agricultural producers and agribusinesses. Direct loans are made at preferred rates of interest and some borrowers are eligible for incentive rebates of part of their interest costs.

The corporation's largest program is the Beginning Farmer Program, which makes loans and incentive rebates to individuals whose farms are in an early stage of development. Loans under this program are expected to total $80 million in 1989-90, while other direct farm and agribusiness loans are estimated to amount to $10 million. Also, the corporation estimates that it will provide $92 million in loan guarantees to farmers and agribusinesses.

In 1988 the corporation offered the Indexed Deferral Plan to its farm borrowers. Under the plan, borrowers may link their loan payments to commodity prices. Payments of over $16 million are expected to be deferred under this plan in 1989-90.

To finance these activities, the Legislative Assembly will be requested to approve a further investment by the Alberta Heritage Savings Trust Fund of up to $42 million in debentures of the corporation in 1989-90.

In order to provide incentive rebates and interest shielding to its borrowers and to cover operating expenses and loan losses in 1989-90, approval will also be sought for a budgetary appropriation of $94.3 million through the Department of Agriculture.

Alberta Agricultural Development Corporation

TABLE D2

(thousands of dollars)

	1989-90 Estimate	1988-89 Forecast
Programs		
Direct Lending	79,900	65,500
Beginning Farmer loans	7,100	3,000
Developing Farmer loans	3,000	1,500
Agribusiness loans	90,000	70,000
Loan Guarantees		
General Guarantee Agreements	80,000	72,000
Alberta Farm Development loans	3,000	3,000
Farm Development loans		
Specific Guarantee Agreements	4,230	3,220
Farm loans	5,000	3,000
Agribusiness loans	92,230	81,220
Total Programs	182,230	151,220
Financing		
Sources of Funds	71,000	54,500
Interest payments on loans	94,315	71,052
Grant from the General Revenue Fund	33,800	37,300
Principal repayments on loans	25,900	31,700
Property sales	42,000	47,000
Debenture borrowing from the Heritage Fund	267,015	241,552
Applications of Funds	111,000	111,300
Interest expense on debentures	13,300	13,600
Farm loan incentives	10,315	10,100
Administration costs	98,000	75,900
Lending programs	34,400	30,652
Principal repayments on debentures	267,015	241,552

Alberta Mortgage and Housing Corporation

The Alberta Mortgage and Housing Corporation's programs involve the construction of subsidized rental housing units for senior citizens, low to middle income Albertans and people with special needs; and mortgage financing to provide affordable rental and ownership housing for low to middle income Albertans.

Capital commitments for mortgage lending programs are expected to total $51.6 million for 1,240 units in 1989-90. The corporation also expects to insure mortgages made available by private lenders on 1,400 mobile homes. A further $40.2 million will be provided for the development of subsidized housing and for the completion of existing land development programs.

Through its mortgage lending programs, $35.5 million will be provided for mortgage financing to facilitate the sale of up to 600 corporation-owned Alberta Family Home Purchase Program units and 250 Modest Apartment Program units. A further $11.9 million will be committed for up to 190 housing units under the Rural and Native Housing Program.

Under the Special Purpose Housing Program, the corporation will commit $2 million to finance the provision of 50 units for Albertans with mental and physical disabilities, young offenders, and those who are victims of family violence or have other special housing needs.

Through its land and housing construction programs, the corporation is expected to make commitments of $40.2 million for 230 senior citizens' self-contained units, 170 senior citizens' lodge units, 60 community housing units, 5 staff housing units and to undertake completion of residential and industrial sub-division development.

To finance the corporation's capital activities, the Legislative Assembly will be requested to approve a further investment by the Alberta Heritage Savings Trust Fund of up to $115 million in debentures of the corporation.

In addition to its capital funding for 1989-90, approval will be sought for a budgetary appropriation of $200.6 million through the Department of Municipal Affairs to meet subsidy and operating costs of social housing and assisted mortgage programs and to pay for loan losses. The subsidies available through the corporation's programs help make housing affordable for many thousands of Albertans.

Alberta Mortgage and Housing Corporation

TABLE D3

(thousands of dollars)

	1989-90 Estimate	(# units)	1988-89 Forecast	(# units)
Programs				
Mortgage Lending Division				
Alberta Family Home Purchase	28,000	600	19,300	426
Rural and Native Housing	11,900	190	14,100	206
Mortgage Insurance - mobile homes	—	1,400	—	1,243
Modest Apartment	7,500	250	200	12
Special Purpose Housing	2,000	50	1,000	23
Mobile home park (stalls)	2,200	150	—	—
	51,600	2,640	34,600	1,910
Land and Housing Division				
Staff Housing	400	5	100	1
Community Housing*	4,500	60	—	—
Senior Citizen Lodges	15,200	170	—	—
Senior Citizen Self-Contained	15,900	230	9,300	135
Rent supplement	—	700	—	548
Residential land	4,100	—	1,300	—
Industrial land	100	—	—	—
	40,200	1,165	10,700	684
Total Programs	91,800	3,805	45,300	2,594
Financing				
Sources of Funds				
Grant from the General Revenue Fund	200,582		187,600	
Mortgage Insurance Fund	—		26,000	
Principal repayments on loans	122,800		108,800	
Property sales	33,500		59,200	
Student residence sales	—		10,500	
Debenture borrowing from the Heritage Fund	115,000		76,000	
Promissory notes	25,700		9,900	
	497,582		478,000	
Applications of Funds				
Mortgage Lending operating costs	61,400		62,300	
Land and Housing operating costs	86,200		88,700	
Administration costs	17,882		16,600	
Repayment of the General Revenue Fund advance	3,500		11,800	
Capital programs	92,600		65,700	
Debenture repayments	236,000		232,900	
	497,582		478,000	

* In 1989-90, an additional 200 corporation-owned properties will be transferred to the Community Housing Program. In 1988-89, 100 units were transferred.

Alberta Opportunity Company

The Alberta Opportunity Company provides loans, loan guarantees and financial guidance to small businesses throughout the province in order to promote the growth and diversification of the provincial economy. The company provides alternative financing to Alberta businesses which are unable to obtain funding on reasonable terms and conditions elsewhere, with priority given to businesses located outside the major centres.

In 1989-90, the company expects to make $38 million in direct loans to Alberta small businesses and will provide $15 million in venture or patient capital financing to high technology enterprises. Also in 1989-90, the company will broaden its range of innovative financing by providing $3 million of seed capital for activities such as market research, business planning and prototype development.

To finance the company's direct lending activity, the Legislative Assembly will be requested to approve a further investment by the Alberta Heritage Savings Trust Fund of up to $39 million in debentures of the company. As well, the Legislative Assembly will be asked to approve $33 million in repayable advances from the General Revenue Fund to the company to finance its seed capital and venture investment programs.

Approval will be sought for an appropriation of $11.0 million from the Department of Economic Development and Trade in 1989-90. These funds will enable the company to deliver its lending programs at less than full cost to its clients.

TABLE D4

Alberta Opportunity Company

(thousands of dollars)

	1989-90 Estimate	1988-89 Forecast
Programs		
Direct lending	38,000	25,000
Venture financing	15,000	9,300
Seed Capital financing	3,000	–
Loan guarantees	2,000	200
Total Programs	58,000	34,500
Financing		
Sources of Funds		
Interest payments on loans	13,600	15,800
Grant from the General Revenue Fund	11,000	11,900
Principal repayments on loans	24,600	32,900
Debenture borrowing from the Heritage Fund	39,000	85,000
Advance from the General Revenue Fund	33,000	–
Reduction in cash balances	1,500	2,500
	122,700	148,100
Applications of Funds		
Interest expense on debentures	16,800	16,000
Administration costs	6,700	7,100
Debenture repayments	41,200	86,000
Capital programs	58,000	39,000
	122,700	148,100

Alberta Municipal Financing Corporation

The Alberta Municipal Financing Corporation makes loans to municipalities, school districts and hospitals boards at interest rates based on its cost of obtaining funds. Borrowers benefit from the corporation's access to the Canada Pension Plan Investment Fund and from a provincial government guarantee of the corporation's borrowings.

In the 1989 calendar year, the corporation expects to lend $425 million to Alberta municipalities, school districts and hospital boards, compared to $314 million in 1988. This 1989 lending activity will be financed by borrowing an estimated $325 million from the Canada Pension Plan Investment Fund and from internal sources.

Through the Municipal Debenture Interest Rebate Program, which is funded by a budgetary appropriation of the Department of Municipal Affairs, approval will be sought to provide municipalities with grants totaling $52.2 million to reduce interest costs on their loans.

Alberta Municipal Financing Corporation

TABLE D5

(thousands of dollars)

	1989 Estimate	1988 Actual
Programs		
Direct Lending	283,000	223,900
Municipal loans	141,000	88,800
School loans	1,000	1,300
Hospital loans	425,000	314,000
Total Programs		
Financing		
Sources of Funds	258,000	255,300
Principal repayments on loans	210,000	107,000
Sinking fund	325,000	311,300
Canada Pension Plan Investment Fund	793,000	673,600
Applications of Funds	425,000	314,000
Direct lending	335,000	247,800
Debt repayment including sinking fund contributions	33,000	111,800
Other	793,000	673,600